FINANCIAL TIMES

Europe's Business Newspaper | MONDAY DECEMBER 5 1994 | D8523A

Swiss back law to curb immigrant drug dealers

Switzerland voted massively in support of a law making it easier to detain immigrant drug dealers who pose as asylum seekers. Religious and leftwing groups opposed the law's tough sanctions as infringements of human rights, but the Swiss have been disturbed by Zurich's open drug scene, rising violent crime and a threat from Lebanese dealers last August to start a bombing campaign in the city. Page 14

Anger at proposals to reform UK royals: Senior British ministers condemned opposition Labour party proposals to cut the cost of the royal family and prevent ministers using antiquated rules of crown privilege to bypass parliament. Page 14

Paisley to boycott investment talks: The Rev Ian Paisley's Democratic Unionist party is to boycott next week's Northern Ireland investment conference in Belfast which is to be attended by members of Sinn Féin, the IRA's political wing. Page 6

Russian gas giant to tap global markets: Gazprom of Russia, the world's largest gas producer, approached international investors in the build-up to a planned offering of 9 per cent of its stock. Page 15; Russia to carve up oil market, Page 2; Temptations to shareholders, Page 13

Olive branch for rebel Tories: Tory backbenchers suspended from the parliamentary party for defying UK prime minister John Major over Europe were promised powerful right-wing backing if they support the government in a crucial vote on value added tax. Page 14

Ruling party wins in Taiwan: Voters opted for stability in Taiwanese local elections on Saturday as the ruling Kuomintang party retained an overall majority. Page 5

World car sales recover: World new car sales will reach 35m this year and are set to rise 4 per cent in 1995 as some big markets move firmly into recovery, a consultants' report says. Page 2; Why Washington ducked a court fight with GM, Page 4

Stillwater to be floated: Stillwater Mining, the only producer of primary platinum group metals outside South Africa, is to be floated on terms that value the Montana-based company at about $250m. Page 17

Rothmans group ahead 13.5%: Richemont, the Rothmans tobacco and luxury goods group, reported a 13.5 per cent rise in interim pre-tax profits [illegible], helped by strong growth in Far East markets. Page 17; BAT's American tobacco hopes raise question of competition, Page 4

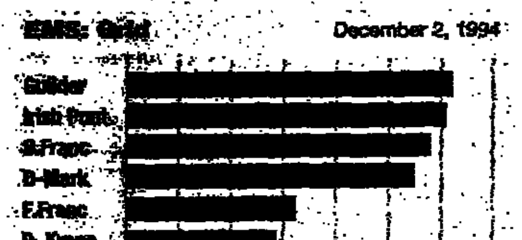
Maxwell settlement fund £40m short: A financial settlement offered to members of pension schemes formerly controlled by the late Mr Robert Maxwell is still between £40m and £50m ($66m-$82m) short and institutions which have agreed to contribute will be pressed to increase their offers. Page 6

Boost for South Korean deregulation: South Korea launched a sweeping reorganisation of the government, including the merger of its two main economic agencies, in an attempt to revitalise President Kim Young-sam's programme for economic deregulation. Page 5

Canadian printer to buy HunterPrint: Quebecor Printing, north America's second-biggest commercial printer, is to acquire HunterPrint, the lossmaking UK printer, for about C$3m (US$2.2m). Page 17

European Monetary System: The Irish punt climbed above the Belgian Franc and the D-Mark in the EMS grid last week. The order of currencies, and spread between strongest and weakest, was otherwise unchanged. This week the focus shifts to the Bundesbank council meeting on Thursday, though rates are expected to be left unchanged. Currencies, Page 29

EMS: Grid December 2, 1994



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

Jacobs agrees £22m bid for Embassy: John I Jacobs, the UK shipping company headed by Sally Line founder Michael Kingshott, made a £22m ($36m) recommended offer for Embassy Property, a group in which Mr Kingshott has a 6 per cent stake. Page 16

Close Brothers to expand: UK merchant bank Close Brothers Group is expected to announce today that it has taken out a £105m ($172m) syndicated loan to finance further growth of its own loan book. Page 16

Mercury faces big job losses: Mercury, the UK telephone company operated by Cable & Wireless, will today announce job losses of between 10 per cent and 20 per cent of its 11,400 workforce. Page 6

Poll shows support for vote on EU single currency

By David Marsh, European Editor, in London

Support for political and monetary union in Europe is even lower among Germans than Britons, according to an opinion poll carried out for the Financial Times.

Nearly two-thirds of adults in each of the two countries want a referendum on a single European currency.

Only 33 per cent of Britons and 24 per cent of Germans support a single currency, while 27 per cent of British voters and just 28 per cent of Germans say they favour closer political links among European Union members.

Strong opposition in Germany to a single currency is caused above all by Germans' anxieties that a future European money might be less stable than the D-Mark.

The poll – the most comprehensive survey ever made of British and German attitudes to European integration – consulted 1,919 respondents in the UK and 2,455 in Germany. It was commissioned by the FT, the German news magazine Der Spiegel, the UK office of the European Commission and the Anglo-German Foundation for the Study of Industrial Society, and carried out by Mori in Britain and Emnid, Germany. In a result that may influence Euro-dissent in the British Conservative party, a referendum on whether the EU should adopt a single currency is favoured by 64 per cent of Britons and 65 per cent of Germans.

Commenting on the suggestion of a referendum, Mr Jacques Santer, the Luxembourg prime minister and president-designate of the European Commission, said he was wary of the legal complexity of holding referendums on a single currency.

■ Press Review .... Page 2

He pointed out the Maastricht treaty had already been ratified.

"What would happen if [the people] said No?" he said.

The survey shows that only 24 per cent of ordinary Germans support widening the EU towards central and eastern Europe – a subject that will be high on the agenda at this week's EU summit in Essen. By contrast, 42 per cent of British respondents back the EU's prospective eastern enlargement.

According to the poll, the Germans are much more favourable to their own country's EU membership than the British. A total of 28 per cent of British respondents say their region has suffered as a result of EU membership, against 14 per cent who say it has benefited. The equivalents in Germany are 15 and 17 per cent respectively.

Twenty-six per cent of UK respondents but only 9 per cent of Germans consider EU membership "a bad thing".

The poll shows how British and German voters want EU decision-making to be carried out as much as possible at a regional level. On balance, British respondents want local government to make the main decisions affecting ordinary people, but most believe that European commissioners have more power over such decisions than either local councils or British ministers.

Britain raises possibility of withdrawing troops from war zone in 'matter of weeks'

UN's future in Bosnia uncertain

By Bruce Clark and Laura Silber in Belgrade and Nancy Dunne in Washington

Britian's defence secretary, Mr Malcolm Rifkind, is expected to meet UN military commanders in former Yugoslavia today amid warnings that UK and other UN peacekeepers might have to be withdrawn from the conflict zone in a matter of weeks.

In Belgrade, the British and French foreign ministers last night put to Mr Slobodan Milosevic, the Serbian president, the urgent need for a ceasefire in the enclave of Bihac and throughout Bosnia.

Mr Douglas Hurd, UK foreign secretary, said: "We don't feel that we have much time. We don't feel all these matters can be discussed in a leisurely way, through the winter to the spring."

It was clear that a purpose of Mr Rifkind's visit was to assess the feasibility of a continued UK presence in a war zone where fighting has intensified and several hundred UN peacekeepers have been detained by the Serbs. He is due to meet General Sir Michael Rose, the British commander of UN forces in Bosnia.

The threat of a UN withdrawal – which could pitch Bosnia's warring parties into a more violent conflict – is one of the few cards the international community can still play after the failure of last week's meeting of the five-nation contact group to agree on a joint strategy.

In the wake of this, Washington at the weekend made direct contact with the Bosnian Serbs. Clinton administration officials said Mr Charles Redman, a former US special envoy on Yugoslavia, had travelled to their self-declared capital Pale but talks had made no headway.

The western allies appear now to be diverging on how to avert a worsening in the conflict, and Mr Milosevic was understood to have been angered by the approach to the Bosnian Serbs.

UK foreign minister Douglas Hurd (centre) and his French counterpart Alain Juppé (right) meet Serbian president Slobodan Milosevic in Belgrade yesterday to discuss the urgent need for an a ceasefire in the enclave of Bihac and throughout Bosnia Picture: Reuter

Political discord on Bosnia also deepened within the US. Speaking on a television news show yesterday, Mr Robert Dole, the soon-to-be majority leader in the Senate, advocated a three-point plan starting with a pull-out of the UN peacekeepers, a lifting of the arms embargo, and a "robust" Nato bombing campaign on Serb targets in Bosnia.

However, Mr Warren Christopher, secretary of state, portrayed Mr Dole's policy as "essentially a war strategy" which would require the commitment of "hundreds of thousands of US ground troops", adding: "I don't think American interests are sufficiently engaged in Bosnia for us to go to war over it."

■ New security order sought for Europe .... Page 2

Mr Newt Gingrich, the top House of Representatives Republican, said the western allies should train and arm the Bosnian Moslem-led government – with money and weapons provided by Islamic countries.

British officials said talk of withdrawing the troops was not intended as a threat, but a realistic assessment of the increasing danger to Britain's 3,300-strong force. According to British officials, Mr Milosevic told Mr Hurd emphatically that a UN withdrawal would be "very bad".

Both Mr Hurd and Mr Alain Juppé, the French foreign minister, praised Mr Milosevic for accepting a peace plan devised in July, and they stressed that the warring parties could negotiate swaps of territory, or constitutional deals, once the basic plan had been accepted.

Mr Milosevic welcomed the idea of flexible deals in Bosnia, but in a new demand, he called for all the parties fighting in Bosnia to be involved in talks, including Croatia and the renegade Moslem force which is fighting on the Serb side near Bihac.

Brussels braces for battle on protection of data

By Emma Tucker in Brussels

The European Commission is heading for a confrontation this week with member states over plans for European Union-wide data protection rules it claims are essential for the development of home banking and other services on the information superhighway.

The move by Brussels looks certain to reopen arguments over the willingness of member states to adopt the measures needed to complete the single market.

At present, the cross-border provision of financial products such as mortgages and life assurance policies via a computer screen is limited because data protection regimes differ. As a result, member states often fail to exchange essential information because one is not satisfied that sufficient protection exists in another.

Brussels' plans are due to be announced in a draft directive on Thursday by Mr Raniero Vanni D'Archirafi, the commissioner responsible for the single market. He believes that efforts to create an information society in Europe "will be in jeopardy if there is no co-ordination of rules for the exchange of data".

Mr Vanni D'Archirafi said: "The business world needs legal security to invest. Without the

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Approval for deal to create Italy's third largest bank

By Andrew Hill in Milan

Directors of Gruppo Bancario Credito Romagnolo (Rolo), the Bologna banking group, have backed plans for an improved bid by Credito Italiano (Credit), aimed at creating Italy's third-largest banking group.

The Milan bank, privatised last year, plans to buy 65 per cent of Rolo at L20,000 a share, a 17 per cent premium to Friday's closing price. Today the two banks are likely to seek Bank of Italy approval for the deal, which would value the whole company at more than L4,350bn ($2.69bn).

If Rolo's shareholders accept the offer it will end six weeks of uncertainty about the future of one of Italy's strongest regional banks, and show that further consolidation of the fragmented Italian banking sector can be achieved only if local interests are respected.

Credit disclosed at the end of October that it planned to bid L19,000 a share for only 48 per cent of Rolo, to add to the 2 per cent stake it already owned. Rolo's directors dismissed the proposal as inadequate.

At a meeting on Saturday night, the Rolo board was finally won over by Credit's commitment to pay more for a larger stake and the promise that Rolo's regional identity and generous dividend policy would be preserved.

The stake will cost the Milan bank more than L2,800bn – about equal to Credit's own market capitalisation – and the two banks will have combined assets of nearly L145,000bn and about 1,000 branches across the country.

■ Lex .... Page 14

In a statement, Rolo's board said the new offer would "respect the interests of the Rolo group and its shareholders better than [the earlier plan]". The decision was backed by all directors, including representatives of Rolo's largest shareholders, Mr Carlo De Benedetti, chairman of Olivetti, the Italian computer group, and Banque Nationale de Paris.

Rolo's decision is likely to kill off alternative plans for a merger between Rolo and Caer, the parent company of the neighbouring Cassa di Risparmio in Bologna (Carisbo).

Italian newspapers speculated yesterday that Carisbo might now launch a counter-bid with the help of Cariplo, the unquoted Milan institution that claims to be the world's biggest savings bank. However, analysts said the price paid by Credit was already high, and although Cariplo has been watching the situation, the savings bank indicated last month that it would only be interested in a friendly takeover of Rolo.

Credit was controlled by Iri, the Italian state holding company, until privatisation a year ago. At the end of September, Credit used its new-found freedom to issue shares and bonds to help pay for acquisitions.

Austria	Sch32	Greece	Dr350	Malta	Lm0.60	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$18	Morocco	MDh15	S.Arabia	SR11
Belgium	BFr65	Hungary	Ft165	[illegible]	MDh15	Singapore	S$4.50
Bulgaria	Lev60.00	Iceland	IKr215	Neth	Fl 4.25	Slovak Rp	KSL50
Cyprus	C£1.10	India	Rs60	Nigeria	Naira60	S. Africa	R12.00
Czech Rp	CZK50	Israel	Shk8.50	Norway	NKr17.00	Spain	Pta225
Denmark	DKr18	Italy	L3000	Oman	OR1.50	Sweden	SKr16
Egypt	E£5.00	Japan	Y500	Pakistan	Rp40	Switz	SFr3.30
Estonia	EKr 20	Jordan	JD1.50	Philippines	Pso50	Syria	S£50.00
Finland	FM14	Kuwait	Fils.675	Poland	Zl 38,000	Tunisia	Din1.500
France	FFr8.50	Lebanon	US$1.50	Portugal (mainland)	Es225	Turkey	L30000
Germany	DM3.50	Lux	LFr65			UAE	Dh12.00

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NEWS: EUROPE

Russian oil quotas spark controversy

By John Lloyd and John Thornhill in Moscow

The Russian government is to carve up the domestic oil market among Russian oil companies, requiring each to supply a certain percentage of the market.

International financial institutions say the move breaches the spirit of the agreements between them and the government and jeopardises the future of crucial negotiations over big loans to stabilise the economy next year.

The decision, communicated at the weekend by Mr Victor Chernomyrdin, the prime minister, to his deputy premiers, would allow the Russian companies freely to export the surplus after fulfilling their domestic quotas.

In literal terms this would lift export quotas, a pledge made by President Boris Yeltsin in July. However, the replacement of export by domestic quotas would mean that the oil price would be kept to around its present low level of 20-30 per cent of world prices. This would in turn preserve a structure which gives rise to extensive illegal export of oil, with huge profits being made from the difference in domestic and world prices.

It also reintroduces into a relatively free, if chaotic, domestic market Soviet-era controls on supply – justified by the strategic importance of the product.

Both Russian and international financial officials, speaking on terms of anonymity, expressed disappointment over the decision yesterday. It means that a $600m (£366m) oil rehabilitation loan negotiated with the World Bank will not now go through. What is more serious, negotiations between a team of officials from the International Monetary Fund and the government on loans of up to $13bn meant to support the 1995 budget and stabilise the currency in the coming year will restart today under a cloud.

"If this decision, which does not require a special decree or agreement from the parliament, cannot go through," said one official, "then what chance is there for real agreement on much more difficult issues which do require such decisions?"

According to Russian reformers, senior ministers fear that the simple lifting of export quotas will cause the oil price to shoot up towards world levels, producing high inflation and social unrest – and that so much oil will be exported there will be serious shortages in the coming winter. The reformers believe that a combination of export tariffs and lack of pipeline capacity would keep a check on prices, though they accept that prices will, and should, rise significantly.

However, both the international officials and the reformers believe the government decision was taken in very large part because of heavy pressure from the oil lobby, whose managers benefit hugely from the price differential. A Russian financier said, "The system benefits almost everyone involved – except a few reformers who believe in a free market."

The decision will also benefit the foreign oil companies which have joint ventures in Russia. They had been told that, were quotas to end, they would be replaced by a system in which exports were based on what percentage of total domestic production their output represented, threatening a huge drop in their earnings, most of which come from the agreed export of 100 per cent of production.

Russia produces roughly 300m tonnes of oil a year and exports around 100m tonnes, – a level which has stayed relatively stable even as production continues to drop heavily, reflecting lack of investment in new fields.

Moscow troops in office raid

Russia's most prominent private businessman accused President Boris Yeltsin's personal guards at the weekend of being involved in a bizarre raid on his company's offices on Friday night, John Thornhill writes from Moscow.

A large detachment of heavily-armed troops, wearing camouflage uniforms and balaclavas, surrounded the offices of Mr Vladimir Gusinsky's Most group, refusing to identify themselves. They took away several Most security guards and drivers in unmarked cars.

No official reason was given but the Itar-Tass news agency, quoting "authoritative sources", suggested its aim was to confiscate documents relating to Most Bank's alleged involvement in the rouble crash of October 11.

The president's press secretary said Mr Yeltsin had launched an investigation into the raid but would not confirm whether his guards had been involved.

Germans and British hold similar views on European Union

☐ One third support local council power ☐ Both countries find US most reliable ally ☐ Single currency widely opposed

By David Marsh

In the Euro-enthusiasm rankings, Britain and Germany usually appear at different ends of the league table. Germany traditionally embodies a commitment to deepening and widening European integration, while Britain is well known for its scepticism.

The customary view of the breadth of the Euro-gulf between the two countries was put baldly by a German minister earlier this year: "We want a united Europe. All you [the British] want is a free trade zone."

In fact, as one of the most comprehensive polls ever undertaken on the subject shows, the views of the British and German electorates on the future of Europe are closer than such statements suggest. Although Germans are much happier with the present position of their country and their regions within the European Union, they are even more sceptical than the British about intensifying political and monetary ties with existing EU partners. They have also grown reluctant about widening the EU towards the east.

There is a similar desire in both countries for decisions to be taken as much as possible at the local level, in line with the principle of subsidiarity that the EU has been trying to foster. A third of respondents in Britain and Germany say decisions affecting ordinary people should be carried out by local government or councils. However, this wish is much more difficult to put into practice in Britain because of the weakness of local and regional governments.

Both countries think the US is more reliable than their European partners, with two-fifths of respondents naming Washington as their nation's strongest ally. The Germans view France far more favourably than Britain. More surprisingly, a relatively large percentage of Britons above the age of 60 – some 8 per cent – sees Germany as Britain's strongest ally. Eastern Germans show above-average reliance on the US and are even less inclined than west Germans to point to Russia as an ally.

In attitudes towards Europe, there are large disparities according to age, social background and region in both Britain and Germany. Broadly speaking, in both countries young higher-income males are most in favour of EU membership, while women take a more sceptical line. Conservative voters in Germany are more positive about the EU than those on the left, while in Britain Labour supporters are slightly more inclined to call EU membership "a good thing".

Younger British people are much more in favour of increasing powers for the European parliament and building up EU political ties than are older voters. The generation gap on such points is less marked in Germany. In Britain many more older people than younger ones say their region is worse off as a result of the EU, while in Germany, the opposite is true: older people are more favourable to membership than those under 30.

Support for the Ecu as a possible name for a future European currency is strongest among higher-income voters with better educational backgrounds in both Germany and Britain.

Britons are much more gloomy than Germans on the present economic impact of the EU. Although support for EU membership has declined significantly in both countries during the past few years, it has descended in Germany from a much higher base. In Britain, only one region – Scotland – out of 11 maintains, on balance, that it has benefited from EU membership. By contrast, in Germany six of the 10 regions say they are "better off" as the result of the EU.

In Germany, Rhineland-Palatinate, North Rhine-Westphalia, Hamburg and Berlin are most enthusiastic about regional benefits. Overall support for the EU is only slightly greater in western Germany than in the east, a sign that increases in Brussels funding for east Germany may be starting to improve pro-EU sentiment in the east.

Some of the most negative attitudes on the EU's regional impact are found in areas of high unemployment such as Yorkshire and northern England, and Brandenburg and Mecklenburg-Vorpommern. However, relatively prosperous southern regions in both countries – London and south-east England, and Bavaria and Baden-Württemberg – also show negative reactions.

There is a sharp contrast between Britain and Germany over the European parliament, with half of Britons opposed to giving it new powers to control the Commission, compared with only 12 per cent in Germany. On fundamental questions of the EU's future structure, however, the two countries are closer. Opposition to a single currency, a strong desire for a referendum on the issue, and lukewarm views on political union are put forward consistently by all categories of respondents in different regions in the two countries.

Lowest support for a single currency comes from southern regions of both Britain and Germany, with eastern Germany more reticent than the west. Strongest support for a referendum comes from the state of Hesse – the home of the German Bundesbank.

German eagerness to forge closer links with eastern Europe may be cooling as a result of economic pressure. East German states are only slightly more keen on enlarging the EU eastwards than the generally sceptical west Germans; in previous opinion polls the east Germans had been much more in favour.

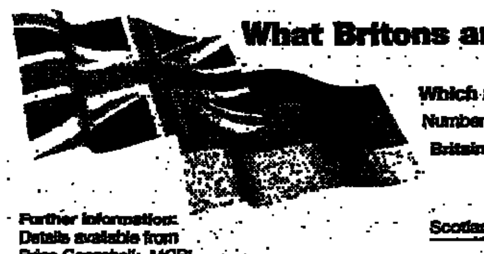
Supporters of the Christian Democratic Union are least enthusiastic about enlargement. The German states with the strongest desire for enlargement – Rhineland-Palatinate and Saarland, close to the French border – are furthest away from the east. In Britain, Scotland and south-west England are most in favour of eastward enlargement, with other southern areas much less keen.

When scores are combined on a range of issues linking feelings about the EU's present impact to views about its future, Rhineland-Palatinate has by far the highest "Euro-comfort" index of the two countries. Only one British region – Scotland – has a positive score, compared with nine in Germany.

The population in the newcomer east German states seems much less ignorant about the EU than much of Britain. In Brandenburg an above-average 57 per cent answered correctly that Brussels is the site of the European Commission.

The east Midlands takes the prize as the worst-informed region, with only 38 per cent of respondents replying correctly. The most knowledgeable areas seem to be North Rhine-Westphalia and south-west England, where 64 per cent of respondents correctly identified Brussels.

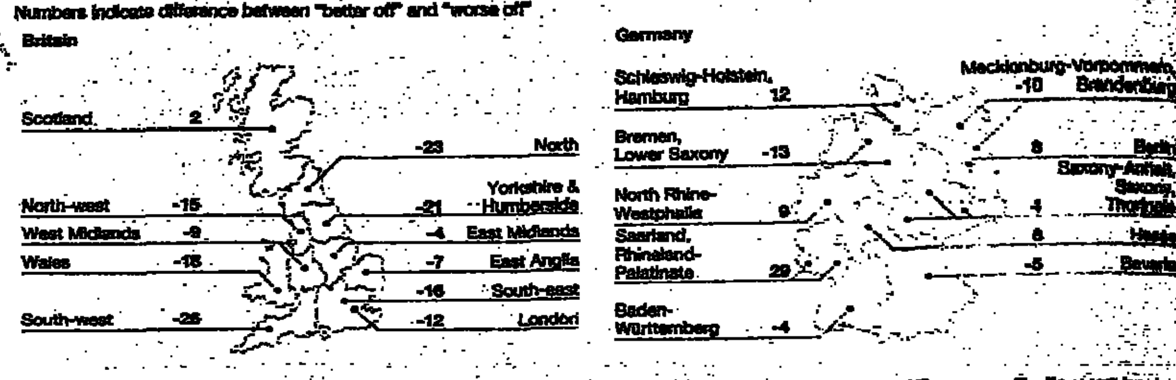
What Britons and Germans think of Europe



Further information: Details available from Brian Gosschalk, MORI, Tel (London) 71-928 5955, Fax 71-955 0070

Which regions say they are better or worse off as a result of EU membership

Numbers indicate difference between "better off" and "worse off"



Is your region better or worse off as a result of your country's membership of the European Union?

	Britain	Germany
Worse off	28	15
Better off	14	17
Unchanged	45	48

Is your country's membership of the European Union a good or bad thing?

Britain	Sep'92	Dec'93	Nov'94	Germany	Sep'92	Dec'93	Nov'94
Good thing	44	43	37	Good thing	57	53	48
Bad thing	23	22	28	Bad thing	13	12	9
Neither good nor bad	28	30	30	Neither good nor bad	25	29	29

Should political links between EU members be closer or looser than at present?

	Britain	Germany
Closer	27	23
Looser	23	24
Remain unchanged	39	35

Should the European Parliament be given greater powers to control the European Commission?

	Britain	Germany
Support	30	55
Oppose	49	12

Who makes most of the key decisions affecting ordinary people in the EU? And who should make most of these decisions?

Makes decisions	*Britain*	*Germany*	*Should makes decisions*	*Britain*	*Germany*
Local government/councils	12	25	Local government/councils	32	32
National MPs	23	33	National MPs	27	33
National ministers	13	24	National ministers	15	18
MEPs	25	27	MEPs	14	17
European Commissioners	16	15	European Commissioners	2	4

Should the EU expand in the next five years to include countries such as Poland, Hungary, Czech republic and Slovakia?

	Britain	Germany
Support	42	24
Oppose	28	34

Where is the HQ of the European Commission?

	Britain	Germany
Brussels	52	56
Strasbourg	8	17
Luxembourg	2	7
London	2	2
Paris	2	1
Berlin	1	1

Should your country hold a referendum on whether the EU should introduce a single currency?

	Britain	Germany
Support	64	65
Oppose	25	18
Don't know	10	18

If there was a referendum on a single currency, how would you vote?

	Britain	Germany
Support	33	24
Oppose	56	53
Don't know	11	23

What should be the name of the future European currency?

	Britain	Germany
Ecu	30	40
Europound	25	2
Pound	20	2
Eurodollar	9	4
Euromark	5	21
Deutsche Mark	*	18
Eurofranc	1	1

Respondents limited to those supporting single currency

Which is your country's most reliable political ally?

	Britain	Germany
US	42	42
Germany	6	-
Britain	-	4
France	5	27
Italy	*	1
Russia	*	1
Poland	*	0

How many visits have you made to Germany or Britain in the last year?

	British visits to Germany	German visits to Britain
None	94	79
One	4	14
Two	1	5
Three	*	2
Four	*	1
Five or more	*	1

Notes: All figures are in per cent. An asterisk indicates a figure less than 0.5 per cent but greater than 0. Figures may not add to 100 per cent because "don't knows" are not listed in all cases.
Source: Britain: 1,919 interviews carried out November 17-21 by MORI. Germany: 2,455 interviews carried out October 31 - November 13 by Emnid.

INTERNATIONAL PRESS REVIEW

The Reykjavik-Oslo-Vaduz-Berne axis

SWITZERLAND

By Ian Rodger

Switzerland is not known for its lively political life.

But in recent years, two issues – European integration and the problems associated with drug addiction – have achieved an extraordinarily long life.

The referendums in Sweden and Norway on joining the EU sparked a fresh round of reflection in Switzerland over the country's decision in a referendum in December 1992 to eschew participating in European integration.

And a national referendum yesterday on a law that would make it easier for police to detain immigrant drug dealers brought out again the widespread indignation over Zurich city's drug scene.

It has come as an unpleasant surprise to the Swiss to discover that they are so divided over these issues that they are willing to debate them in public. It has long been a matter of firm belief in this multicultural country that civil harmony is best achieved through compromises arrived at discreetly behind closed doors.

The Swiss media are equally steeped in the tradition of seeking a middle way rather than asserting radical points of view. No mainstream Swiss newspaper or magazine, for example, can see any alternative to joining the European Union. The only difference between them is in the degree of wit employed in condemning their country for what they see as its foolishness.

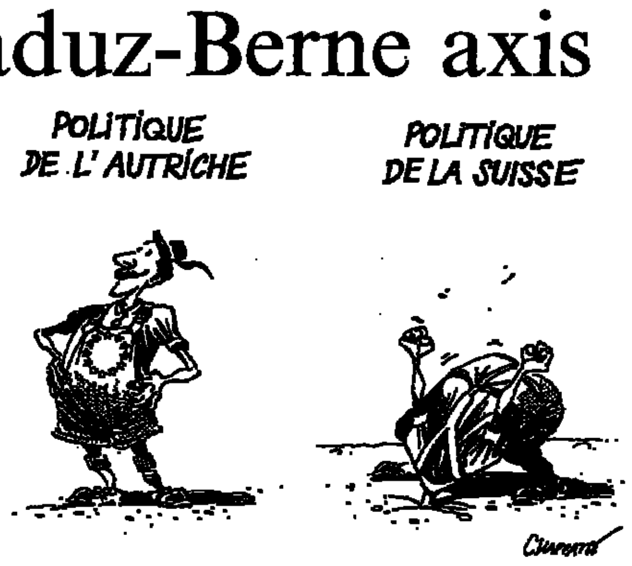
The decision by Norwegians to stay outside the EU provided considerable scope. Anti-EU Swiss politicians had wasted no time in asserting that the decision meant the European Free Trade Association (Efta), with Norway, Switzerland, Iceland and Liechtenstein as remaining members, could still have a viable future.

Richard Diethelm in Zurich's *Tages Anzeiger* responded sardonically: "An Efta menu reduced to fondue and fish is too indigestible to have any expectation of being a permanent part of the Swiss diet."

Jacques Pilet in Geneva's *Nouveau Quotidien* was more indignant. "It is not serious to claim that a Reykjavik-Oslo-Vaduz-Berne axis will enable us to defend our interests effectively in the European Union," he said.

Another element of the European issue has reappeared because last month the European Commission finally agreed to discuss six issues bilaterally with Switzerland. In the wake of the anti-EEA vote two years ago, the Swiss set out to negotiate urgent matters, such as landing rights in EU countries for Swissair. But Brussels has been in no hurry to reward the Swiss for refusing to join the club.

The *Neue Zürcher Zeitung*, which has had more reservations about integration than most, warned its readers to expect the worst: "Certainly, there is at the moment no alternative to bilateralism for Switzerland. But let no one be deceived. This is not the same as an active, comprehensive integration policy, but only a damage limitation policy."



From l'Hebdo magazine: Switzerland, not Austria, is the ostrich

Zurich's notorious open drug scene has also divided the Swiss to an extent and in ways rarely seen before. Yesterday's referendum backed increased police powers of search, arrest and detention when dealing with asylum seekers.

Again, the range of opinion on this issue has been relatively narrow, with the only unqualified criticism coming from commentators in the French-speaking part of the country. They resent Switzerland's human rights record being tarnished because the Zurich city government's experiment with a liberal drug policy ran out of control.

Jacques-Simon Eggly in the *Journal de Genève* wrote last week: "If it passes, I hope at least that the judges retain in their minds the troubled consciences of those who, however attached they are to security and the struggles against crime and drugs, fought it."

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Berlusconi's fans rally in cities

By Andrew Hill in Milan

Tens of thousands of supporters of Mr Silvio Berlusconi, the Italian prime minister, took to the streets of Italy's largest cities over the weekend, as anti-corruption magistrates kept up the pressure on his business associates.

"This is a demonstration in support of Berlusconi, a man who has saved the country," Mr Cesare Previti, defence minister and a close friend of Mr Berlusconi, told a rally of more than 20,000 supporters in Rome yesterday.

The rallies were co-ordinated by the local "clubs" of Forza Italia, the political movement founded by Mr Berlusconi this year. They were prompted by Milan magistrates' decision two weeks ago to invite him in for questioning about alleged bribery of tax police by his Fininvest business empire. Yesterday, Mr Jas Gawronski, the prime minister's spokesman, said Mr Berlusconi would be unable to meet the magistrates before December 13 because of international commitments.

The delay will give Mr Berlusconi more time to build on the goodwill generated last week when trade unions cancelled a general strike after concessions on the 1995 budget and pensions reform.

The Northern League, the most volatile of Mr Berlusconi's government allies, was not involved in the rallies and was attacked by many demonstrators for not backing him wholeheartedly. The results of a second round of mayoral elections yesterday could see Forza Italia punished for its uncomfortable alliance with the League in northern cities such as Brescia and Sondrio, where its candidates were lagging after the first round.

Machine tool makers urge subsidy for workers laid off

By Andrew Baxter

Europe's machine tool makers want the European Commission to introduce a scheme that would allow them to keep skilled workers on the payroll in recessions and re-employ them when recovery starts.

The plea follows the worst recession in the history of Europe's machine tool industry, which accounts for 41 per cent of world production. Employment in Europe has dropped from 200,000 in 1990 to 132,000 this year.

At a meeting last week with Mr Alexander Schaub, deputy director of the commission's industry affairs directorate, the European machine tool umbrella body Cecimo asked for a scheme similar to one introduced recently in Japan. Under this, the Japanese government pays up to three-quarters of the wages of workers when a company is obliged to cease production temporarily. The subsidy can last for up to one year.

Mr Pierluigi Streparava, president of Brussels-based Cecimo, said in a recession the industry was forced to shed highly-skilled workers – needed to develop and sell sophisticated machinery.

"Later, you need them back, but the workers have most probably found a job elsewhere," he said. "So you have to wait two to three years before you can train someone else to the same level." The plea is one of a number of proposals from Cecimo, which has 12 member countries in western Europe. They complement a recent commission communication on strengthening competitiveness in the European mechanical engineering industry, which was presented to industry ministers last month.

Among other proposals from Cecimo are a research and development programme for manufacturing technology that would combine the relevant projects in the European Union-backed Esprit and Brite/Euram programmes. Cecimo says this would be easier for machine tool producers, which are mainly small and medium-sized enterprises, to enter.

Cecimo described last week's talks as the most positive it had had with the Commission, which will discuss the communication in January with member states and the mechanical engineering industry.

Cecimo hopes that, under the French presidency in the first half of next year, the communication could become a resolution adopted by industry ministers. Meanwhile, it says production and consumption of machine tools in Europe has stabilised this year after falls of 19 per cent and 30 per cent respectively last year, but prices and profitability were still under pressure.

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Leaders aim to upgrade CSCE role

Bruce Clark on debate beginning today over a new security order

The leaders of more than 50 nations gather in Budapest today for an ambitious effort to work out a new security order for Europe and the former Soviet republics, aimed at reducing the danger of further conflicts such as Bosnia.

The idea of upgrading the Conference on Security and Co-operation in Europe has some powerful supporters, including US President Bill Clinton, Russian President Boris Yeltsin and German Chancellor Helmut Kohl.

While Germany and Russia are long-standing proponents of a stronger CSCE, the US has weighed in more recently with its own proposals to make the institution a more effective instrument for preventative diplomacy and arms control.

The CSCE comprises the US, Canada, and almost every country in Europe and the former Soviet Union. It was born nearly 20 years as a playing field for cold war diplomacy, in which the Soviet Union promoted respect for existing borders, while western countries advanced the principle of human rights and free speech.

A document circulated two weeks ago by the US calls for the CSCE to "assume a central role in the promotion of a common European security space...." But a shadow has been cast over the summit by the grave problems that arose last week in the other international institutions that are supposed to be dealing with security in Europe: the United Nations, Nato and the "contact group" on Bosnia.

The US wants stronger 'early warning' mechanisms on potential conflicts

With the US, Russia and the main west European powers barely able to conceal their differences over Bosnia and the future of Nato, diplomats say they will be hard pressed to bring any real credibility to the more ambitious project of an upgraded CSCE.

An important product of the CSCE process was the treaty on Conventional Forces in Europe (CFE), a giant exercise in non-nuclear disarmament whose terms Russia now wants to revise. But the CSCE's commitment to border security was unable to prevent the disintegration from within of three of its founder members: the Soviet Union, Yugoslavia and the Czechoslovakia.

The CSCE's human rights inspectorate has worked well in places such as the Baltic states and Albania which were keen to co-operate because they felt they were being unfairly accused of ill-treating minorities.

Yet the break-up of the Soviet Union has left the CSCE with a number of member states – particularly on the southern flank of the Commonwealth of Independent States, a group of 12 former Soviet republics which Russia increasingly dominates – which make no pretence of observing western norms on human rights. Moscow would now like the CSCE to become the apex of a new security system whose twin arms would be Nato and the CIS.

Western countries have balked at any suggestion of downgrading Nato, but the US has recently spelt out a compromise position: the CSCE should be boosted, without watering down the Atlantic alliance in any way.

Both the US and Hungary, which is hosting today's meeting, have suggested going halfway to meet Russian aspirations for a stronger CSCE would help to blunt Moscow's objections to the enlargement of Nato. However, the tough position adopted by Russia at a meeting of Nato foreign ministers in Brussels last week suggests that Moscow will not be bought off easily.

Mr Andrei Kozyrev, the Russian foreign minister, refused at the last moment to approve a Russia-Nato co-operation programme, in protest at Nato's newly adopted plans for faster enlargement.

This came after the US, in the hope of assuaging Moscow, had persuaded its 15 allies in Nato to support its proposals for a stronger CSCE.

The US now supports the German idea that CSCE members should refer any conflicts to the CSCE as a "halfway house" before resorting to the UN.

Washington also wants the CSCE to develop stronger "early warning" mechanisms which could give notice of potential conflicts and help to defuse them.

A big test of the CSCE will be the fate of its long-standing effort to set up a peace-keeping force in Nagorno-Karabakh, an Armenian-populated enclave of Azerbaijan where tens of thousands have died in fighting since 1988.

Moscow wants any peace-keeping force to be mainly Russian, while Azerbaijan has been pressing, with western support, for a multinational effort.

Russia's insistence on as free as possible a hand for its "peace-keeping" activities has fuelled western fears that Moscow simply wants to use the CSCE to license its military presence in the southern republics of the CIS.

Georgian President Eduard Shevardnadze has postponed his departure for Budapest because one of the most prominent campaigners for the republic's independence, Mr Georgy Chanturia, was assassinated over the weekend. His associates blamed "imperialist forces".

Ukraine will formally renounce its nuclear status today, ending a long-running row over the former Soviet nuclear arsenal and opening the way for the delayed implementation of superpower arms cuts, Reuter reports from Budapest.

President Leonid Kuchma said yesterday he had come to the European security summit in Budapest ready to sign the nuclear Non-Proliferation Treaty (NPT) provided he gets the guarantees he wants for Ukraine's protection.

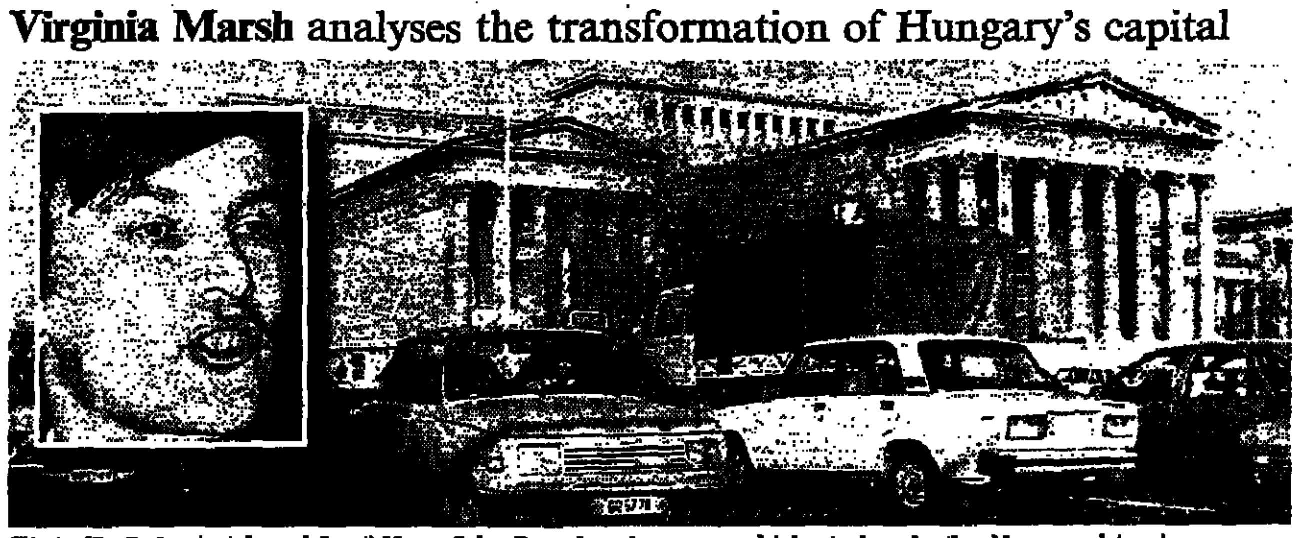
US President Bill Clinton is scheduled to preside over a signing ceremony with President Kuchma on the margins of the Conference on Security and Co-operation in Europe summit today. The deal opens the way for long-delayed implementation of old Cold War era superpower arms cuts under the Start-1 treaty.

Of the three other former Soviet republics which inherited nuclear weapons, Russia remains a nuclear power while Belarus and Kazakhstan have already given them up.

Budapest mayor savours political spotlight

Europe's changing cities

Virginia Marsh analyses the transformation of Hungary's capital



City traffic, Budpest–style, and (inset) Mayor Gabor Demszky, who was once driving taxis under the old communist regime *Alan Harper*

The only thing Budapest mayor Gabor Demszky was worried about as his city prepared for today's 53-nation European security summit was the traffic. And he should know. One of his jobs during the communist era when he was banned from practising law was a taxi driver in the capital, central Europe's largest metropolis.

As it happened, main roads were blocked off last night and guarded by several thousand extra police officers bussed in from the countryside. Two hundred new Mercedes limousines, ordered for the occasion, were lined up to whisk heads of governments, foreign ministers and their many attendants into the city centre.

"We're closing schools and telling everyone to stay at home or to use public transport," said Mr Demszky. "There'll be no problems if there are no traffic jams," he said.

A doctor of law, Mr Demszky drove taxis when he was not allowed to practise as a lawyer because he had a police record for organising a political demonstration at university in the days of the Soviet domination of eastern Europe.

Later, as a founder and leader of Hungary's underground publishing movement, he become one of the country's most prominent – and persecuted – dissidents.

Now consistently rated as one of Hungary's most popular leaders, the 42-year-old mayor looks set to be re-elected for another four years in next Sunday's local elections. "I was the organiser behind the underground movement," he said. "The others liked to speak and write but I was the one responsible for keeping the whole thing moving and alive. This job is the same."

He said one of his most difficult tasks was balancing the rapidly changing and differing needs of the city's more than 2m inhabitants as the country moved towards a market economy. His electorate includes both the newly rich entrepreneurial classes who live in mansions perched high above the Danube in the hills of Buda as well as slum-dwellers living on the other side of the river in Pest whose flat suburbs stretch for miles towards the puszta, the Great Plain.

"It's incredible how rich some people have become in the last five years," he said. "You just have to count the cars coming across the bridges from Buda in the morning. There are more Mercedes 600s in this town than in Vienna."

There are also more Trabants. The rattling and spluttering two stroke vehicles, made in the former East Germany, account for a fifth of the city's 550,000 cars. The mayor, a dedicated environmentalist, plans to change this. His city council is offering up to three years of bus passes for those willing to consign their Trabant to a scrap heap. Last year, more than 2,000 Trabant owners obliged.

The collapse of heavy industry in the last five years and a shift to trade and commerce, Budapest's traditional mainstays, have also helped cut pollution that has blackened the facades of the capital's otherwise elegant boulevards.

The mayor estimates the number employed in the financial services sector will more than double to 200,000 in three years, leaving few employed in heavy industry.

Many new jobs are being created by multinational companies using Budapest as a base for expansion into eastern Europe.

"Vienna was the regional base for many companies in the communist-era but we're the last frontier to eastern markets now," he says.

Rivalry with Vienna, some 300km up the Danube, is nothing new. Much of the city was built in Hungary's golden era after the country was freed from direct Austrian rule in 1867. Hungary's new kings combined the ancient cities of Obuda, Buda and Pest to form Budapest in 1872 and, in the years up to the First World War, set about creating a city to rival the Austrian capital, according to Mr Andras Vegh, historian at the City Museum.

"Many of the city's greatest landmarks – the tower on the Matthias church, St Stephen's Basilica and the parliament – were built during this time when a main aim was to be able to compare Budapest with Vienna and compete with the Austrians," he said.

These days, however, Mr Demszky prefers to compare modern Budapest with New York which he chose as the capital's twin city. He said the two cities shared the same cosmopolitan, fast-moving atmosphere: "It's not surprising. New York was built by emigrants from this country and this [Austro-Hungarian] monarchy," he said.

"You feel the same central European and Jewish culture and see the same architecture as you do in Budapest. The city has its own engine, its own lines of development.

"This will push it forward," he said, "regardless of what happens elsewhere in the country."

Clinton backs Salinas as WTO chief

By Nancy Dunne in Washington

With his battle over Congressional approval of the World Trade Organisation behind him, President Bill Clinton has issued his first public statement in support of former Mexican President Carlos Salinas as head of the new WTO. This signals that the US will press strongly Mr Salinas' candidacy despite the threat of a divisive fight over the WTO leadership.

The president waited one day after the passage of Gatt in Congress before issuing a statement noting that "President Salinas is the only candidate for director who has served as a head of state. He would bring... a wealth of experience and important insights from the perspective of a developing country."

Mr Renato Ruggiero, the former Italian trade minister, has been leading in the race while Mr Salinas was serving out his presidency – which ended last week – and Mr Clinton was focused on getting the world trade pact through Congress. The former Italian trade minister claims the support of African, Caribbean and Pacific groups, the North Africans and many Middle East countries.

While there was little controversy about trade liberalisation in the US debate over the Uruguay Round, the creation of a WTO became the subject of fear and suspicion. The opposition portrayed it as a supranational body ready to eviscerate US environmental, health and food safety laws. It was not the time publicly to press the candidacy of Mr Salinas, a widely admired leader US officials believe would bring stature to the new trade body.

The next step by the pro-Salinas forces will be to seek an endorsement from the nations of the western hemisphere at this week's Miami Summit of the Americas. India will be sounded out for support, and the Asians, now supporting the third candidate – Mr Kim Chul Su, South Korean trade minister – will be urged to back Mr Salinas as a second choice.

There was hope in Geneva, where Mr Ruggiero is popular, that a new leader could be agreed at a meeting of trade diplomats on Thursday. But now the whole issue is likely to be remitted to another meeting just before Christmas. The EU contends that with Mr Ruggiero the clear favourite, Mr Salinas and Mr Kim should concede defeat and bow out.

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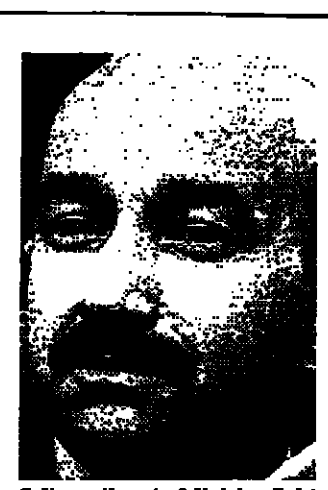


Salinas: threat of divisive fight

Irritation over Washington's trade demands

China attacks US as 'obstacle' to Gatt entry

By Tony Walker in Beijing

China renewed its trenchant attack on Washington at the weekend citing the US as the "main obstacle" to its entry to the General Agreement on Tariffs and Trade and accusing it of engaging in a "political, economic and psychological game".

Mr Yu Peiwei of the Ministry of Foreign Trade and Economic Co-operation accused the US of using Gatt to "pry open" China's financial, insurance, telecommunications, transport and other service markets for its own companies.

"Areas the US wants most from China are those in which American businesses have the strongest advantage, such as the car and aircraft industries as well as trade in services," Mr Yu said in an interview with the official Business Weekly newspaper.

Mr Yu's remarks, which are similar in tone to an increasingly irritable Chinese position on the US and Gatt, come on the eve of the resumption of Geneva talks between Chinese and American negotiators. The Chinese official claimed that US efforts to stall China's entry to Gatt were motivated by fear that a "rapidly growing Chinese economy would enable China to join hands with developing countries to threaten the US dominant status in the world economy."

Beijing has been pressing hard to rejoin the Gatt and thus become a founder-member of its successor World Trade Organisation which is due to be inaugurated at the beginning 1995. But continuing argument over tariff reductions and market access issues is holding up China's application.

US negotiators are pressing China hard to improve its offer of phased tariff reductions and market access to the agricultural, non-agricultural and services sectors. China argues that as a developing country it risks widespread economic disruption if it complies with US demands.

In Geneva last week, Mr Long Yongtu, China's chief negotiator, set the end of this year as the deadline for "substantive negotiations" on its Gatt entry. China withdrew from the trading accord in 1950, the year after the communists came to power.

Mr Long said after talks with Mr Peter Sutherland, Gatt secretary general, that China would not make any new, substantive offers in negotiations on the Gatt protocol. China would also not "on its own initiative" seek bilateral negotiations with Gatt contracting parties and meetings of the working party after the end-of-year deadline.

The European Union, which has adopted a more conciliatory posture than the American "hard line", has suggested that China be accorded "founder-member" status of the WTO pending completion of negotiation of its protocol for entry.

White House doubts surface on Japan policy

By Nancy Dunne

Just as US officials were basking in the afterglow of the Congress vote on the global trade pact, a fissure seemed set to open over administration trade policy towards Japan.

It was revealed in a speech in New York on Friday by Mr Jeffrey Garten, the Commerce Department under-secretary for international trade. He apparently surprised his colleagues in the inter-agency trade policy review group by signalling that the Clinton administration would increasingly rely on multilateral channels to put pressure on Japan to reduce its trade barriers.

He admitted the US had failed to command international support for its current confrontational policy through bilateral talks and suggested that more could be achieved by seeking allies among "progressive forces of change" in the new World Trade Organisation, the EU, the Asia-Pacific Economic Co-operation forum (Apec), and Japan itself. These would include Japanese consumer groups and companies seeking cheap imports.

The apparent rift in the administration reflects differences in the business community at large over whether Japan can best be dealt with bilaterally or multilaterally. The bilateral camp, which includes so-called trade hawks such as Mr Clyde Prestowitz, a former Commerce Department negotiator now head of the Economic Strategy Institute, has so far prevailed in influencing US policy.

In his speech Mr Garten said: "In one of the great ironies of the late 20th century, Japan – which has rigged its economic systems for over 100 years – has branded the US as wanting to 'manage trade'. From Seoul to Sydney, from London to Frankfurt, and even around the US, the image stuck. From a public relations standpoint we never recovered."

The administration should not abandon its bilateral tactics towards Japan, but could employ "a more strategic" and "sophisticated" policy, Mr Garten said. "What is required is a degree of subtlety and patience that does not always characterise US policy – in any administration," he said. "We could be more proactive in urging Gatt, the IMF, the OECD, Apec, and others to focus on Japanese practices that do not conform to world standards."

Mr Garten said that, though much had been achieved by the current bilateral policy, "there is a growing fatigue and weariness among the negotiations on both sides of the Pacific which makes the future agenda more difficult".

Mr Garten joined the Clinton administration after officials devised the current "results-oriented" policy and began negotiating sectoral deals which included "economic indicators to measure progress".

It has been his assignment to negotiate an opening in the Japanese automotive market, which accounts for 60 per cent of the US trade deficit with Japan.

"Frankly, we have little to show for our efforts," on this front, he said.

But other deals reached bilaterally have been successful. Motorola said US pressure to open and deregulate Japan's cellular telephone market had led to a boom of subscribers – from 12,000 to 150,000 in less than a year – on Motorola's TACS system.

It is unclear how much support Mr Garten has within the administration for a shift – or what he calls "an evolution" – towards multilateralism. The speech drew anger in some quarters although administration officials would not comment publicly on his views.

Mr Prestowitz, who works closely with the administration, said the US originally pressed for the Uruguay Round as a means to deal multilaterally with Japan.

"The theory was that other countries would join us, but it doesn't tend to work that way," he said. Other countries – in Asia and the EU – want to maintain their own invisible barriers.

Mr Jules Katz, former deputy trade representative, favours the multilateral approach and says many more cases could be brought before dispute settlement panels of the new World Trade Organisation. "Why should we be carrying the ball alone, particularly since the results are always multilateralised?" he asked.

Financial services still face curbs to market entry

By Nancy Dunne

Intensive bilateral and multilateral negotiations over the past four years have broken down market barriers to foreign banks and securities firms in countries around the world. But lack of competitive opportunity for foreign financial institutions remains "the rule rather than the exception".

These are the findings of a new 739-page US Treasury report covering the last four years.

Bilateral talks between the US and Japan, China, Korea and Taiwan have "yielded progress in a number of key areas," according to the report. Japan has permitted establishment of foreign investment trust management companies and has expanded the range of securities foreign firms can underwrite and sell.

The report says China has expanded the number of locations for foreign branch banking and lets foreign banks buy and sell foreign exchange on behalf of foreign-invested joint ventures. Korea has formulated a three stage framework for comprehensive financial sector liberalisation, and Taiwan has partially lifted a ban on foreign bank branch entry.

Brazil, on the other hand, still prohibits new entry of foreign banks and has frozen increases in foreign participation in the ownership of existing institutions. Several countries – including Chile, Malaysia, Singapore and Thailand – have bans on the issuance of new domestic banking licenses.

The EU's single market in financial services is being implemented on a reciprocal basis, but a number of European countries impose capital requirements on branches of foreign banks which do not apply to EU banks, according to the report.

Negotiations completed in the Uruguay Round established a framework of multilateral disciplines under the General Agreement on Trade in Services (Gats). In these talks - due to conclude six months after the launch of the World Trade Organisation – the US is seeking binding commitments to reduce or eliminate a broad range of barriers.

In a statement accompanying the report, Mr Lloyd Bentsen, the treasury secretary, outlined a three-step strategy to press for further financial liberalisation. First the US will not agree to provide national treatment, equalising the opportunities for foreign and US banks, unless other "commercially important countries" commit to further openings.

The US will continue to press openings in bilateral negotiations. It is also pushing for development and integration of capital markets around the world, using as enticement technical assistance and loan programmes offered by the multilateral financial institutions.

The US has been simplifying access to its own markets. Since 1990, a total of 305 new foreign securities groups have entered the US market.

Why Washington ducked a court fight with GM

Road safety wins out in saga of fuel tanks. **Tony Jackson and George Graham** report

Last Friday's settlement between General Motors and the US Department of Transportation, whereby the government dropped its attempts to recall allegedly unsafe GM pickup trucks in exchange for GM spending \$51m (£32.6m) on road safety, is clearly designed to let both sides off the hook.

It extricates the transportation secretary, Mr Federico Peña, from a case which looked increasingly unwinnable in court and saves GM the public relations disaster of an official hearing.

For the car industry, the deal has broad significance. Between 1973 and 1987, GM sold some 9m large pickups with the fuel tank mounted outside the main frame, thus allowing a bigger tank and longer range. The trucks passed the necessary safety tests at the time; but it has since been argued that they are more likely to catch fire in a side-on collision than trucks by other makers.

The government started to investigate two years ago. In October, Mr Peña upped the stakes sharply by moving to recall the trucks. They had caused 150 more deaths than would have been caused by Fords, he said, and statistically were liable to cause 32 more.

What really alarmed the car industry was the idea that it could be retrospectively liable for vehicles passed as safe when sold. "Meeting a safety standard," Mr Peña said, "does not absolve a manufacturer of its responsibility to produce safe vehicles." GM had become aware the trucks were defective, he said, adding that the management "appeared to have made a decision favouring sales over safety". GM hotly disputed the allegations and still does. "These trucks are as safe as the comparable Ford or Dodge," a spokesman said yesterday, "and far safer than any passenger car."

The immediate commercial risk to GM was minor. By US law, vehicles cannot be recalled more than eight years after sale. The risk was thus restricted to the 350,000 or so models sold in 1987.

More important, GM faces between 50 and 60 civil suits on behalf of accident victims. Only seven cases have come to court so far, with GM winning three and losing three and the seventh due for retrial. The fact that the government has dropped its case now means, says GM, that none of Mr Peña's earlier statements are admissible in court.

Politically, Friday's settlement looks an undoubted embarrassment for Mr Peña. His officials deny he was acting under duress from the White House or the Department of Justice. Rumours have been rife, however, that President Bill Clinton disliked the prospect of a battle with GM in which his administration would appear as the heavy-handed regulator, just as a new Republican Congress arrives in Washington.

Mr Peña is already under fierce attack from anti-GM lobbyists. The Victims' Committee to Recall GM Pickups calls the settlement a "public bribe" and "a sentence of death for hundreds more Americans". The Center for Auto Safety is going ahead with a parade of burn victims on Capitol Hill today.

But Mr Peña had such a weak hand that the deal could have been worse. His staff at the National Highway Traffic Safety Administration had repeatedly told him the case was not in their view winnable in court because the trucks did not pose an "unreasonable risk".

In addition, NHTSA staff estimated that even if the Transportation Department did win a recall of the trucks, it would take around five years of litigation and save only six to nine lives.

The NHTSA estimates that one small part of the money being spent by GM under the settlement – the purchase of 200,000 car seats for babies to be distributed free to low income families – will save 50 lives and prevent around 5,000 injuries.

Mr Stephen Kaplan, a Transportation Department official, said Mr Peña had made his decision "in a public interest mindset". The deal, he said, "will save hundreds and hundreds more lives than any other option available to him".

INTERNATIONAL NEWS DIGEST

World car sales record in sight

World new car sales will set a record in 1995 for the second year running as some big markets move firmly into recovery, consultants DRI/McGraw-Hill forecast in their latest annual report on the world car industry. World sales this year, at 35m, will be 6 per cent higher than in 1993, when sales hit a six-year low of 33.1m, the report* predicts. They are projected to rise by a further 4 per cent in 1995, to 36.45m units.

However the overall figures disguise wide variations between markets, with Latin America and much of the Asia-Pacific region booming but western Europe still struggling to pull itself out of recession and no real sign of recovery in Japan. The report expects sales in western Europe to rise by 5 per cent this year, to 12m units but the rate of growth will slow to around 4 per cent next year before recovering in 1996.

In percentage terms, the most spectacular growth is coming from Asia-Pacific countries outside Japan. New car sales in China, for example, are forecast to jump by 28.6 per cent next year, to 758,000, and to top 1m before the end of the decade. *John Griffiths, London*

**World Car Industry Report Forecast, November 1994. DRI/McGraw-Hill, Wimbledon Bridge House, 1 Hartfield Rd, London SW19 3RU. £3,100*

Poll gives Delors a wider lead

Mr Jacques Delors yesterday widened his lead over other potential French presidential candidates in an opinion poll that coincided with strong denials by the Balladur government of reports that it is trying to help Mr Bernard Tapie challenge the outgoing European Commission president for the left-wing vote. The Ifop poll in the Journal du Dimanche showed that Mr Delors, with 23 per cent support, was the preferred presidential candidate over 13 others, led by Prime Minister Edouard Balladur with 17 per cent and followed by Mr Jacques Chirac with 11 per cent. Mr Delors has promised to announce by Christmas whether he will run for president.

With 6 per cent in yesterday's Ifop poll, Mr Tapie still runs fourth among presidential preferences. But some pundits believe that the maverick Mr Tapie could eat into Mr Delors' electoral base if he too, were to run for the presidency, and some newspapers suggested late last week that this is just what Mr Balladur is seeking to arrange by keeping Mr Tapie out of the bankruptcy court, to the annoyance of the justice ministry. *David Buchan, Paris*

China investment flows surge

Foreign investment is expected to continue flowing into China at an average annual rate of \$15bn a year to the end of this century, according to the Development Research Centre of State Council, China's cabinet. Mr Zhang Xiaoji, the centre's deputy director of foreign economic relations, said that while this figure would mark a slowdown from the surge of 1993-95 it was "still surprisingly high compared with many other countries". China is now absorbing about one-third of direct foreign investment to developing countries worldwide, which reached \$80bn last year. Direct overseas investment in 1993 of \$26bn accounted for 13 per cent of total investment last year in China's fixed assets. This compared with an average throughout the 1980's of 2.5 per cent.

But the numbers of new projects were down by 46 per cent to the end of September compared with last year, and pledged investment dropped by about 32 per cent to \$57bn. Mr Zhang said indications of a slowdown this year were to be expected. *Tony Walker, Beijing*

Olympics drug abuse 'shock'

China's Olympic Committee expressed "deep shock and regret" at the weekend over a finding by the Olympic Committee of Asia that 11 Chinese athletes had tested positive for performance enhancing drugs at the recent Asian games in Hiroshima. China announced that it had appointed a committee to investigate the episode and said those involved would be punished severely under international rules. The report was carried by People's Daily in its back-page "brief news" columns. The OCA finding that a number of its top athletes, including several members of its all-conquering women's swimming squad, had failed doping tests is proving a severe embarrassment for China. Beijing had angrily rejected western criticism after the world swimming championships in Rome earlier this year that its female swimmers owed the spectacular improvement in their performances to drugs. *Tony Walker, Beijing*

Zambia averts row with donors

The Zambian government yesterday averted a confrontation with western aid donors and announced the voluntary liquidation of the state-owned airline. The donors, who provide some \$700m-\$800m a year in support of President Frederick Chiluba's economic reform programme, had warned they might suspend aid if the government pressed ahead with a loan to the heavily indebted Zambia Airways. The government had intended to draw on a \$30m oil purchase facility provided by a Kuwaiti bank to help pay some of the airlines creditors, and buy time in which to implement a cost-cutting plan. Donors maintained this would break an agreement on public sector borrowing, and suspected the government was trying to avoid privatising the airline. *Michael Holman, Africa Editor*

Moscow split over Chechnya

The conflict around the Russian North Caucasian republic of Chechnya is threatening to cause a row in the Russian parliament as liberal deputies prepare to demand a debate on the secret use of Russian soldiers to assist the opposition in their abortive attack on Grozny eight days ago. In Chechnya, The rebel government of General Dzhokar Dudayev continued to refuse to observe the terms of President Boris Yeltsin's order to hand over power and weapons while an aide to Mr Yeltsin said the president would not negotiate with the Chechen leader. Large concentrations of Russian troops remain on the Chechen border. *John Lloyd, Moscow*

BAT's American tobacco hopes raise a question of competition

Richard Tomkins reports on the US cigarette market and why the anti-trust regulator opposes a bid by the British group

In 1927, the British took over a big chunk of the US cigarette industry when the UK company now known as BAT Industries bought Brown & Williamson Tobacco, one of the largest US cigarette manufacturers. Now BAT Industries is trying to take another slice through a \$1bn takeover of American Tobacco. Will the US let it happen?

The answer will largely hang on a hearing that begins today in New York, at the end of which a US federal court will decide whether or not to support the Federal Trade Commission's attempt to block the acquisition.

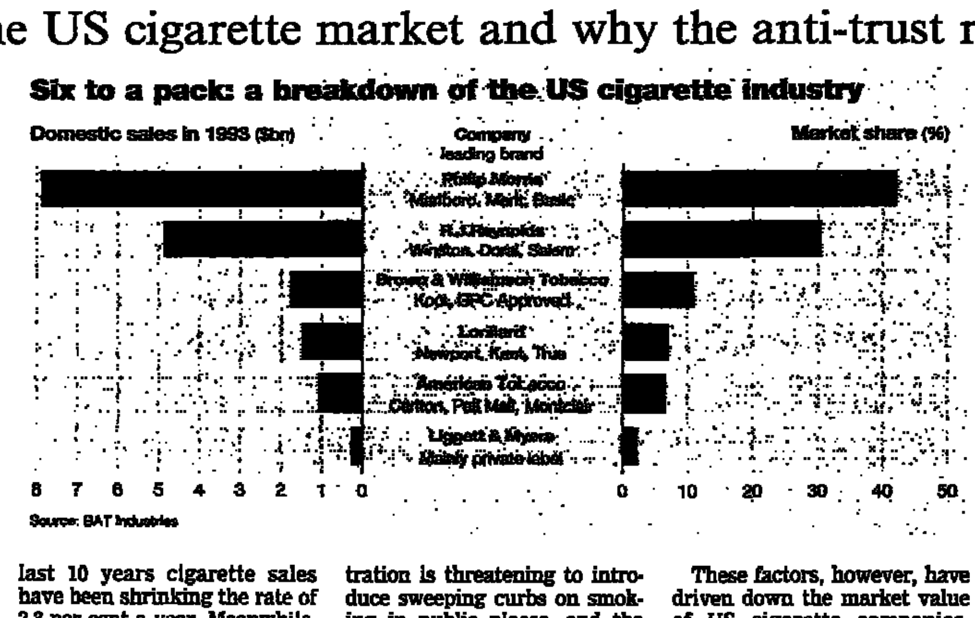
BAT Industries, the UK tobacco and financial services group, made its \$1bn (£640m) cash offer for American Tobacco, the fifth biggest US cigarette maker, in April. The would-be vendor is American Brands, the diversified US consumer products group that is American Tobacco's parent.

Both BAT and American Brands are keen to complete the deal. But at the end of October the Federal Trade Commission announced that it would try to halt it, saying the takeover would substantially reduce competition in the US cigarette market and result in anti-competitive pricing.

Over the next two weeks, the US District Court for the Southern District of New York will consider the FTC's request for an injunction barring the acquisition. In theory, an injunction would be a temporary measure pending a full hearing of the FTC's complaint; in practice, the court's decision, or any appeal against it, is likely to settle the matter.

In many ways, it seems odd that BAT should want to buy American Tobacco at all. In the US, the proportion of adults who smoke has dwindled to 25 per cent, and in the last 10 years cigarette sales have been shrinking the rate of 2-3 per cent a year. Meanwhile, smokers and cigarette makers are under siege: big increases in cigarette taxes may be on the way, the Clinton administration is threatening to introduce sweeping curbs on smoking in public places, and the manufacturers are facing a new wave of product liability lawsuits from well-heeled plaintiff attorneys.

Six to a pack: a breakdown of the US cigarette industry



Source: BAT Industries

These factors, however, have driven down the market value of US cigarette companies, making them more attractive to buyers. And since BAT Industries already owns Brown & Williamson in the US, it stands to reap big benefits from the acquisition of American Tobacco because of the cost savings that would result from merging the two companies' manufacturing and distribution.

The FTC's objection to the takeover rests on the argument that it would remove a player from a market that is already highly concentrated. American Tobacco has not followed other companies' price increases, the FTC says, so the acquisition would eliminate an aggressive competitor. If American Tobacco went, the chances of collusion between remaining players would increase, and prices would probably go up.

The FTC's argument is compelling. There are only six cigarette manufacturers in the US, one of which is already owned by BAT. According to US merger guidelines, a market is regarded as highly concentrated if it scores more than 1,800 points on a formula called the Herfindahl-Hirschman index. The US cigarette market scores more than 2,900.

Yet BAT has some strong arguments, too. It points out that the two largest companies in the US cigarette market, Philip Morris and R.J. Reynolds Tobacco, together account for more than 70 per cent of cigarette sales. BAT's Brown & Williamson, the third biggest, has only 11 per cent. Even after a merger with American Tobacco, Brown & Williamson would remain a distant third with a market share of less than 18 per cent: but a stronger Brown & Williamson would be better able to compete with the two market giants.

On price, BAT says there is no likelihood of collusion, with or without the takeover. Competition is becoming more intense as manufacturers fight to increase sales in a shrinking market. In addition, restrictions on cigarette advertising have eroded loyalty to all but the most powerful brands, leading to extremely competitive pricing.

Recently, BAT points out, the downward pressure on prices has grown still stronger because of the proliferation of cut-price, own-label cigarettes. If evidence were needed of the increasing competitive pressures, it came last year on "Marlboro Friday", when Philip Morris slashed the price of its leading brand to claw back market share.

The arguments are finely balanced and it would take a brave pundit to predict the outcome. But BAT does at least start with the advantage that it has been here before: in 1988 it spend eight months fighting the regulatory authorities in nine states before succeeding in its \$5.2bn takeover bid for Farmers, the US insurance group.

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Taiwan's voters opt for stable Chinese relations

By Laura Tyson in Taipei

Voters opted for stability in Taiwanese local elections on Saturday as the ruling party retained an overall majority despite losing the mayoralty of the capital Taipei to Mr Chen Shui-bian, a legislator from the leading opposition party.

Mr James Soong, the incumbent candidate of the governing Kuomintang (KMT), easily won the polls for the provincial governorship with 56.3 per cent of votes in what was interpreted as an affirmation of the status quo in the island's delicate relations with China. The victory for mainland-born Mr Soong also helped heal ethnic divisions between native Taiwanese and recent immigrants from China which flared during the campaign.

The poll was the first for provincial governor and the first in three decades for mayors of the municipalities of Taipei and Kaohsiung, a southern port city. The KMT retained a majority of seats in the assemblies of Kaohsiung city and Taiwan province, but lost its majority in the Taipei city assembly.

The Democratic Progressive party (DPP) appeared to be moving towards the political centre on winning its first important administrative post since political reforms began with the lifting of martial law in 1987. Mr Chen, who had been involved with the dissident movement from the late 1970s, played down the party's traditional advocacy of Taiwanese independence in his victory speech.

Mr Chen's election to the mayoral post is doubly significant as he will participate in cabinet meetings – the first time a DPP member has been able to do so.

The polls, regarded as an important milestone in Taiwan's democratisation, went off peacefully despite widespread allegations of vote-buying.

Mr Parris Chang, a DPP legislator, called the result a "political and psychological victory" for the leading opposition group. "The KMT has so many more resources, organisationally and financially, that there's no way we can compete with them in the provincial election," he said, alluding to the ruling party's strong grass-roots political machine.

The outcome had been predicted by pundits and thus had been largely discounted by financial markets. "The stock market's reaction should be generally bullish," said Mr William McGrath, general manager of the Taiwan representative office of S G Warburg Securities.

Mr Chen yesterday pledged to gather a group of Taiwanese and foreign experts to conduct a comprehensive investigation of Taipei's corruption-plagued urban mass transit system. A "red paper" detailing the team's findings would be released to the public.

Prof Hu Fo, a political analyst at National Taiwan University, said these elections represented little change in the existing balance among the political parties but legislative elections in late 1995 would be crucial. "Opposition parties could topple the KMT's absolute majority in parliament, potentially leading to the appointment of a prime minister from the opposition and a reduction in the power of the president," he said.

The reaction of China, which considers Taiwan a part of its territory in rebel hands, is likely to be muted.

Crew from the ill-fated Achille Lauro cruise ship, which caught fire last week in the Indian Ocean, celebrate yesterday as their rescue ship arrives in Mombasa, Kenya. Safety review, UK news Reuter

Boost for S Korean deregulation

By John Burton in Seoul

South Korea has launched a sweeping reorganisation of the government, including the merger of its two main economic agencies, the finance ministry and the Economic Planning Board.

The measure is seen as an attempt by President Kim Young-sam to revitalise his programme for economic deregulation, which appears to have lost momentum recently due to bureaucratic resistance. Pressure is growing on South Korea to reduce its trade and foreign investment barriers and promote financial liberalisation as it prepares to join the Organisation for Economic Co-operation and Development in 1996.

The government reorganisation is expected to be followed by a large-scale cabinet reshuffle later this month once parliament approves South Korea's membership in the World Trade Organisation.

The creation of the finance and economic board marks the demise of the EPB, which symbolised strong state intervention in the economy over the last three decades.

The EPB was established in 1961 when the military took control of South Korea. It was the main architect of the country's subsequent rapid growth by issuing blueprints on economic development. But its role has declined in recent years following the downfall of the military dictatorship in 1987, with much of its power being transferred to the finance ministry.

Since then, the EPB has become a supporter of economic deregulation, while the finance ministry is now regarded as the main centre of resistance to liberalisation.

The merger of two agencies is considered an attempt by President Kim to leaven the ranks of the conservative finance ministry with EPB officials favouring reform.

Mr Kim also hopes to reassert his authority over the bureaucracy by strengthening the role of the prime minister's office as policy co-ordinator for government administration.

The ministries have increased in power in recent years following a decision by Mr Kim's predecessor, President Roh Tae-woo, to decentralise decision-making in order to promote democracy.

The result, however, has been to give them the ability to hamper the Kim administration's deregulation proposals which represent a loss of power for bureaucrats and threatens their jobs.

The prime minister's office will take control of the Fair Trade Commission (FTC) from the EPB, indicating that Mr Kim will renew efforts to curb the economic power of the country's leading industrial groups, or *chaebol*.

Other main features of the government restructuring include the merger of the transport ministry with the construction ministry. This reflects government plans to spend $100bn on infrastructure projects primarily related to transport over the next eight years.

The environment ministry will also be upgraded to cabinet status, reflecting concerns about increased pollution.

Burundi extremists refuse to heed example of Rwanda

By Leslie Crawford, Africa Correspondent

Even with the horror of Rwanda at their doorstep, political extremists in Burundi appear determined to speed up the disintegration of their country and provoke another ethnic bloodbath.

After months of United Nations-mediated negotiations to forge a government of national unity, the Tutsi-led opposition party threatened at the weekend to break its alliance with the majority Front for Democracy in Burundi (Frodebu) over the election of a Hutu as the speaker of parliament. Diplomats in the capital Bujumbura believe the collapse of the power-sharing agreement could make the country ungovernable.

Mr Anatole Kanyenkeko, prime minister, cut short a trip to Europe to deal with the political deadlock in Burundi. He said on his return to Bujumbura yesterday that he would try to convince his party, the Union for National Progress (Uprona), not to leave the government.

Mr Ahmedou Ould Abdallah, the Mauritanian UN representative who has laboured over the past 11 months to steady tempers in Burundi, believes the problem lies with a few Tutsi hardliners who refuse to share power with the country's Hutu majority.

"This time it is not the (Tutsi) army which is fuelling the crisis, it is civilians," Mr Abdallah said yesterday. "If the Uprona hardliners continue to destabilise the governance of this country through dictat and blackmail, it is they who will be responsible for another catastrophe on the scale of Rwanda."

Burundi has the same ethnic make-up as Rwanda – 85 per cent Hutu, 14 per cent Tutsi and a small Twa (pigmy) population. But whereas Hutus ruled in Rwanda until their overthrow by Tutsi guerrillas earlier this year, Tutsis in Burundi have never relinquished real power. They control the army, civil service and judiciary, business and the press. Like Rwanda, Burundi is overpopulated and desperately poor: factors which augment the hatred and fear between Hutu and Tutsi communities.

Even before the current political crisis, Burundi was struggling to salvage what remained of its short-lived experiment with democracy. Its first freely elected president, Mr Melchior Ndadaye, a Hutu, was murdered by renegade Tutsi army officers in October 1993 after less than 100 days in office. In the turmoil that followed, 50,000 Burundians were killed. Mr Ndadaye's successor died in the April air crash which also killed Gen Juvenal Habyarimana, the Rwandan dictator.

Mr Sylvestre Ntibantunganya, Burundi's third Hutu president in a year, has little power. He is the only surviving Frodebu leader in Burundi. His wife and six of his colleagues were murdered in the 1993 putsch; another three members of the party leadership fled into exile.

The president has lost much Hutu support for making too many concessions to the Tutsi elite: Uprona has taken 40 per cent of the cabinet posts and seven of the 16 provincial governorships. Disaffected Hutus say the power-sharing agreement did not solve the fundamental issues for Hutus: who controls the army and judiciary. They also believe the government of national unity is a smoke-screen behind which Tutsis are preparing to eliminate Burundi's Hutu political leadership.

Hutu extremists have allied themselves to the remnants of Rwanda's defeated Hutu army and declared "war" on Burundi's new government. Small guerrilla bands have crossed into northern Burundi and attacked army convoys. The army has retaliated by burning villages and massacring Hutu peasants.

Lebanon turns to Syria in PM row

By Mark Nicholson in Cairo

Mr Rafik Hariri, who has offered his resignation as Lebanon's prime minister, and his chief antagonist, Mr Nabih Berri, speaker of the parliament, took their bitter row to Damascus for talks with Syrian leaders yesterday. Mr Hariri continued to insist before the talks that he could "no longer govern" the country.

Some officials from the Hariri camp denied his resignation offer was a political gambit. The resignation was "irrevocable" and his differences with Mr Berri, the former Shi'ite warlord, "irreconcilable".

However, others close to Mr Hariri suggested before the talks that the businessman-turned-premier might be persuaded to stay on if Syria could broker a cabinet reshuffle which removed individuals seen as blocking Mr Hariri's plans. Mr Hariri has proved unable alone to command full cabinet discipline behind his ambitious rebuilding projects, and had offered his resignation in May after an earlier bout of cabinet infighting.

Mr Hariri stormed out of a Thursday night cabinet meeting saying he had resigned because his ambitious $11bn (£6.7bn) rebuilding plans for Lebanon were being impeded by several ministers and by Mr Berri in particular.

The resignation capped one of the sourest weeks of Mr Hariri's two-year tenure, marked by allegations of scandal and corruption directed by two parliamentarians at both the son of President Elias Hrawi and Solidere, the company designed by Mr Hariri to redevelop central Beirut.

Mr Hrawi, who with Mr Hariri and Mr Berri is the third member of the country's ruling troika, has firmly backed the prime minister he appointed in 1992, saying he would "tear up" Mr Hariri's resignation.

The central bank at the weekend announced it had raised overnight rates to 50 per cent to back the Lebanese pound.

NEWS: UK

Lords to hear appeals over failed companies

By Jim Kelly, Accountancy Correspondent

The House of Lords will today begin hearing appeals from the administrators of Paramount Airways, and the receivers of Leyland Daf and Ferranti, in a landmark case with far-reaching consequences.

If the appeal is rejected, thousands of employees who lost their jobs when companies failed will be able to claim damages against the receivers and administrators who took over the businesses. Potentially such claims could reach £2bn. Payments to individuals would depend on the case and the employment contract.

The accountancy firm Arthur Andersen, the receiver of Leyland Daf, the automotive group, and Ferranti, the electronics group, joins Touche Ross, the administrator of Paramount, in today's appeal.

The case has been taken to the Lords because of a court ruling in March which left receivers and administrators responsible for the contracts of employees at troubled companies.

If receivers and administrators kept employees on after a 14-day "threshold" period, they were deemed to have "adopted" the company's pay and benefits obligations.

The controversial ruling, which made it more likely that employees would lose their jobs quickly after a company failure, was wiped out by the Insolvency Act in May. This measure absolved receivers and administrators of responsibility for employment contracts after the 14-day threshold.

But receivers and administrators were still potentially liable for the jobs lost at companies in trouble between 1986, the date of the previous Insolvency Act, and March's court ruling. Because of time limitations on claims, the actual period for which damages could be sought is likely to fall between 1989 and this year. Company failures were running at a high rate in those five years.

Some workers will have taken new jobs and may not wish to pursue claims. In some cases, claims would be met from the assets of the company to which administrators were appointed. However, in most cases a claim for damages may prove too late as the assets have been sold.

In most cases, the claims will fall on receivers, who are personally liable, unlike the administrators. In the Leyland Daf and Ferranti cases, the receivers are in a good position to meet claims because they still hold substantial assets from the companies involved.

If, on the other hand, the Law Lords decide to grant the appeal the threat of having to meet huge claims will be lifted from the insolvency profession.

Industry backs pro-EU group within Tory party

By James Blitz

Some of Britain's leading industrial companies – including Glaxo, Grand Metropolitan and Enterprise Oil – have given financial backing to a new pro-European pressure group inside the Conservative party.

As Tory Euro-rebels continue to challenge Mr John Major's government over European Union integration, the new group, called Action Centre for Europe, is to lead a fight-back by Conservatives committed to British membership of the EU.

The group was founded by Lord Howe, the former cabinet minister, earlier this year. Among senior Tory officials who have joined its advisory council are Mr Kenneth Clarke, the chancellor, Mr David Hunt, the chancellor of the Duchy of Lancaster and Sir Leon Brittan, one of the UK's EU commissioners.

A group of banks and business organisations have pledged around £50,000 to set up the organisation, which will argue the pro-European case within the party in the run up to the EU's inter-governmental conference in 1996.

The list of sponsors includes Salomon Brothers, the merchant bank. It is understood that strong interest in the organisation has also been shown by N.M. Rothschild, the merchant bank, De La Rue, the bank note printer, Pirelli, the Italian tyre-maker, and the Andersen Consulting group. ICL and General Utilities have also shown interest.

The centre, which aims to counter the role of the European Foundation, an anti-Maastricht think-tank, will launch a series of high-profile conferences next year outlining how the UK can develop in the EU.

Maritime safety review to focus on passenger ferries

By Charles Batchelor, Transport Correspondent

Two shipping disasters in the past week have lent fresh urgency to a safety review which starts today at the London-based International Maritime Organisation.

The maritime safety committee had already planned to focus on roll-on roll-off ferry safety following the sinking of the Estonia in the Baltic in September with the loss of more than 900 lives. Last week's sinking of a Philippines ferry with the loss of more than 140 lives and a fire on the cruise liner Achille Lauro, which cost two lives and gutted the vessel, have increased pressure on the committee to tighten up regulations.

The role of the IMO, a United Nations agency, is to improve maritime safety and prevent pollution from ships.

It works a number of through technical committees and relies on persuading member nations to adopt the treaties they devise. The maritime safety committee has representatives from most of the IMO's 150 member countries.

Prompted by the sinking of the Estonia, Mr William O'Neil, IMO general secretary, has proposed the creation of a panel of safety experts to recommend action in the hope of shortening the normally lengthy procedures.

Particular attention will be paid to the strength and watertightness of bow and stern doors, the advisability of fitting internal bulkheads on the vehicle deck and the need for guidelines on operations in adverse weather conditions.

The committee is also to consider far-reaching amendments of the international convention on training standards and seafarers' qualifications.

UK NEWS DIGEST

Mercury set to shed up to 20% of its staff

Mercury, the UK telephone company operated by Cable & Wireless, will today announce job losses of 10 to 20 per cent among its workforce of 11,400.

Lord Young of Graffham, Cable and Wireless chairman, warned last month that "a substantial cost and headcount reduction programme" would be required to prepare Mercury for a more competitive telecommunications market in the late 1995.

The company, 80 per cent owned by C&W and 20 per cent by Bell Canada, will outline the job cuts this morning in briefings to the Mercury workforce, stockmarket analysts and journalists. Although unions are prepared for 1,100 jobs to go, some financial analysts believe the cuts will exceed 2,000 over a period of years.

Mercury's half-yearly results, released last month, surprised analysts by showing a £3m decline in operating profits to £96m in the six months to September 30, although turnover rose by 12 per cent to £797m. Lord Young said the "disappointing" figures were due mainly to adverse changes in the regulatory regime.

Paisley raps Sinn Féin role at investment conference

The Rev Ian Paisley's Democratic Unionist party is to boycott next week's Northern Ireland investment conference.

His announcement, made during the party's annual conference at Dungannon at the weekend, comes as little surprise.

Mr Paisley remains implacably opposed to any contact with Sinn Féin, the IRA's political wing. Once Downing Street confirmed that Sinn Féin councillors on the Belfast and Derry economic committees had been invited, Mr Paisley's reaction was inevitable.

The DUP's absence will nonetheless reinforce Ulster's image as a divided society, and could make it more difficult for the Northern Ireland Office to convince business that now is the time to invest in the province's future.

Next week's conference is intended to be a showpiece for foreign investors, and to provide evidence that Ulster is ready to end its internal strife and forge a new consensus.

Maxwell offer falls short

A financial settlement offered to members of pension schemes formerly controlled by the late Robert Maxwell is still between £40m and £50m short of what is needed to meet all liabilities.

This week, Sir Peter Webster, acting as a negotiator on behalf of the government-backed Maxwell Pensioners Trust, will be meeting institutions which have offered to contribute to the fund to encourage them to increase their offers. Also, some which failed to make offers will be encouraged again to do so.

Those who do not make offers as part of a "global settlement" are likely to be the subject of writs from trustees of the various schemes seeking recovery of assets. It is expected that Sir Peter will press for final offers to be received by the end of this week.

New venture for Rank Xerox

Rank Xerox, the international document company, has joined forces with cost management consultancy Currie & Brown to launch a new company in the burgeoning facilities management market.

The market has grown rapidly in recent years as companies cut costs by concentrating on their core business and farmed more peripheral services out to specialist organisations.

CBX Limited, which is to be launched today, will add yet another new company to the sector. It will be capitalised to the tune of £500,000 ($820,000) and be held equally by Rank Xerox, Currie & Brown and the management of CBX. CBX was formerly the Great Britain services division of Rank Xerox.

Direct selling up by 10%

Sales in people's homes of a variety of goods from cosmetics to books increased nearly 10 per cent last year, according to the Direct Selling Association, a trade body representing the industry in the UK.

Sales from the more than 400,000 sales people in the sector came to £913m, ($1,497m) up from £832m in 1992. The sales come from about 100 companies which sell goods including food and diet supplements and household products but exclude double glazing and insurance.

BR boss backs subsidies

The government will have to make a long-term commitment to subsidise the railways if the planned privatisation of Railtrack is to succeed, Sir Bob Reid (left), British Rail chairman, said. "The Treasury need to commit themselves to the franchisees [train operating companies] who will then commit themselves to Railtrack," he said. "It is the certainty of the revenues that will make Railtrack saleable." He said the government would have to guarantee seven years of funding to a company that took a seven-year franchise to operate a train service.

The government announced last month that it planned to sell at least 51 per cent of Railtrack in the lifetime of the present parliament. Railtrack owns and maintains the infrastructure of Britain's railways, including 11,000 miles of track and signalling and 2,500 stations. Its main income will come from access charges paid by the train operators.

Growth seen in teleworking

Nearly three out of every ten companies in Britain now have employees who work from home or who plan to start doing so shortly, according to a study published today by BT, Britain's largest private sector employer.

The biggest growth in teleworking is coming in the media where a third work from home and business consultancy where 31 per cent are doing so. Many have started in the past six months. More than a third of all government employees (35 per cent) are currently increasing the amount of time they spend working at home.

The survey was carried out by NOP between June and September this year with 2,813 business interviews.

Toolmakers' Budget plea

Leaders of Britain's Machine Tool Technologies Association are to meet officials from the Treasury on Wednesday to hear why manufacturing industry's plea for increased capital allowances was rejected in last week's Budget.

A delegation from the association is likely to express its disappointment at the short shrift given to their pleas by Mr Kenneth Clarke, the chancellor. Mr Clarke said in his Budget that the argument for higher allowances had a "simplistic appeal" and would distort investment decisions. He restated the government's philosophy in favour of lower overall corporation tax rather than higher allowances.

Ironically, forecasts released by the association late last week predict strong growth over the next three years in machine tool investment in the UK and substantial increases in exports of UK-made machine tools.

Louise Kehoe and **Tom Lloyd** offer contrasting views of business process re-engineering

Down in the dirt to clean up IBM

"Anybody who says they enjoy business process re-engineering is either crazy or they have never done it," says Bob LaBant, IBM senior vice-president and one of eight executives in charge of revamping every aspect of IBM's worldwide operations to make them more efficient and competitive.

Re-engineering is tough, painstaking work that involves re-examining every detail of how a business operates, the IBM executive says. "You have to really get down in the dirt."

For IBM, company-wide re-engineering efforts began in earnest with the arrival 18 months ago of Lou Gerstner, IBM's chairman and chief executive, who established it as a priority across the company's operations.

Each of the company's top executives has responsibility for re-engineering part of IBM's business on a worldwide basis. LaBant, general manager of IBM North America, is in charge of re-engineering marketing, sales, customer support and service activities, or what he calls "customer relationships".

In the past, individual IBM product divisions have undertaken re-engineering projects, but never before has there been such a large-scale, co-ordinated effort across all of the company's activities.

One of the biggest challenges facing IBM is to transform a sales and marketing organisation geared to mainframe computers into a "solutions provider" of complete information technology systems, while also creating a low-cost distribution channel for "commodity" products such as personal computers.

To improve its ability to serve customers seeking "complete solutions", IBM earlier this year restructured its worldwide sales effort into 14 groups focused on a specific industry such as finance, health, insurance and manufacturing.

With the new management structure in place, LaBant is now focusing on business processes – the way in which IBM performs myriad tasks involved in forming and maintaining customer relationships.

The guiding principle behind the re-engineering is to meet customers' needs more effectively. The process began about two years ago with surveys, interviews and studies of customers. The results were boiled down to seven requirements.

Customers told IBM: Understand me, the way my organisation works; fulfil your commitments; be easy to do business with; be responsive and accessible; communicate in my terms, not in *IBM-ese*; have competent people; and give me competitive prices.

The next task, says LaBant, was to analyse to what extent IBM was meeting these requirements. "We had so many different ways of doing things, mapping the sub-processes was very difficult."

The result, however, is a list of 12 customer relationship processes each of which is being changed to match more closely customer needs and increase efficiency by eliminating duplication of work.

"Solution delivery" is one example. A critical element of this is pricing. When a customer signs a contract with IBM to provide a complete information technology system, it typically involves computer equipment, software, technical support and consulting services as well as products from third parties.

"Somebody has to put a price on all of this. It used to have to go through several staff levels and then be referred to White Plains [IBM US headquarters] for approval," says LaBant. "It would take six to eight weeks to get a price back to the customer."

Now pricing is delegated to the local "client team" which arrives at a figure with the help of a software program called a "pricing tool".

In other instances, work is being centralised. Finance and planning functions, for example, are being managed on a national level.

"The things that get in the way of local teams have been consolidated on a national basis. Those things that are directly related to dealing with customers have been delegated to the field staff," LaBant explains.

Not surprisingly, information technology is playing a vital role in IBM's customer-relationship re-engineering. IBM has updated its use of IT to include computer systems that support functions such as contract management, opportunities management and skills management.

The re-engineering is also leading to job cuts. However, unlike past workforce reductions at IBM, in which employees were offered incentives to leave the company regardless of their role, experience or talents, the latest cuts have been carefully targeted.

Earlier this autumn 3,000 support staff jobs were eliminated, reducing the IBM US marketing and sales workforce to about 40,000, down from 71,500 in 1991.

"We made these [recent] decisions based on the affordability and benefits of the work being performed, not a headcount objective," LaBant stresses.

Reducing costs is crucial as IBM struggles to boost meagre profits after a period of heavy losses.

"Sales general and administrative expenses used to represent 35 cents of every dollar of IBM US revenues. We have dropped to the low 20s over the past three years but we are going to have to drive it down into the teens – not by cutting people but by re-engineering and getting our costs out and cutting out work that we don't need."

A critical element of re-engineering is winning the support of employees. Edicts from headquarters are of little value unless the "people in the *firing line*" accept them, says LaBant.

He has formed a cadre of "regular folks" as advisers. They include a sales representative, a pricer, somebody in accounts receivable and a project manager working with a customer. "I know them well enough that they don't sweet-talk me. They know I want bone-bruising feedback."

Another technique is to hold "town meetings". One week each quarter, the IBM US executives take to the road. "Last week we were in Kansas City, Tulsa, Dallas and Denver. We talked to about 2,000 IBMers."

Comparing the performance of IBM against competitors is also important. "We are constantly benchmarking. I know the efficiencies of every one of my key competitors." Because *no other company* covers IBM's broad spectrum of industry segments, LaBant has created a "paper tiger", a mythical competitor that is the "sum of the best" performer in each segment. Today, he acknowledges, IBM's efficiency is lagging. But he expects to be "on the paper tiger's back in 1995".

But a re-engineer's work is never done: "It is a continuum. When you say you are done, you are dead."

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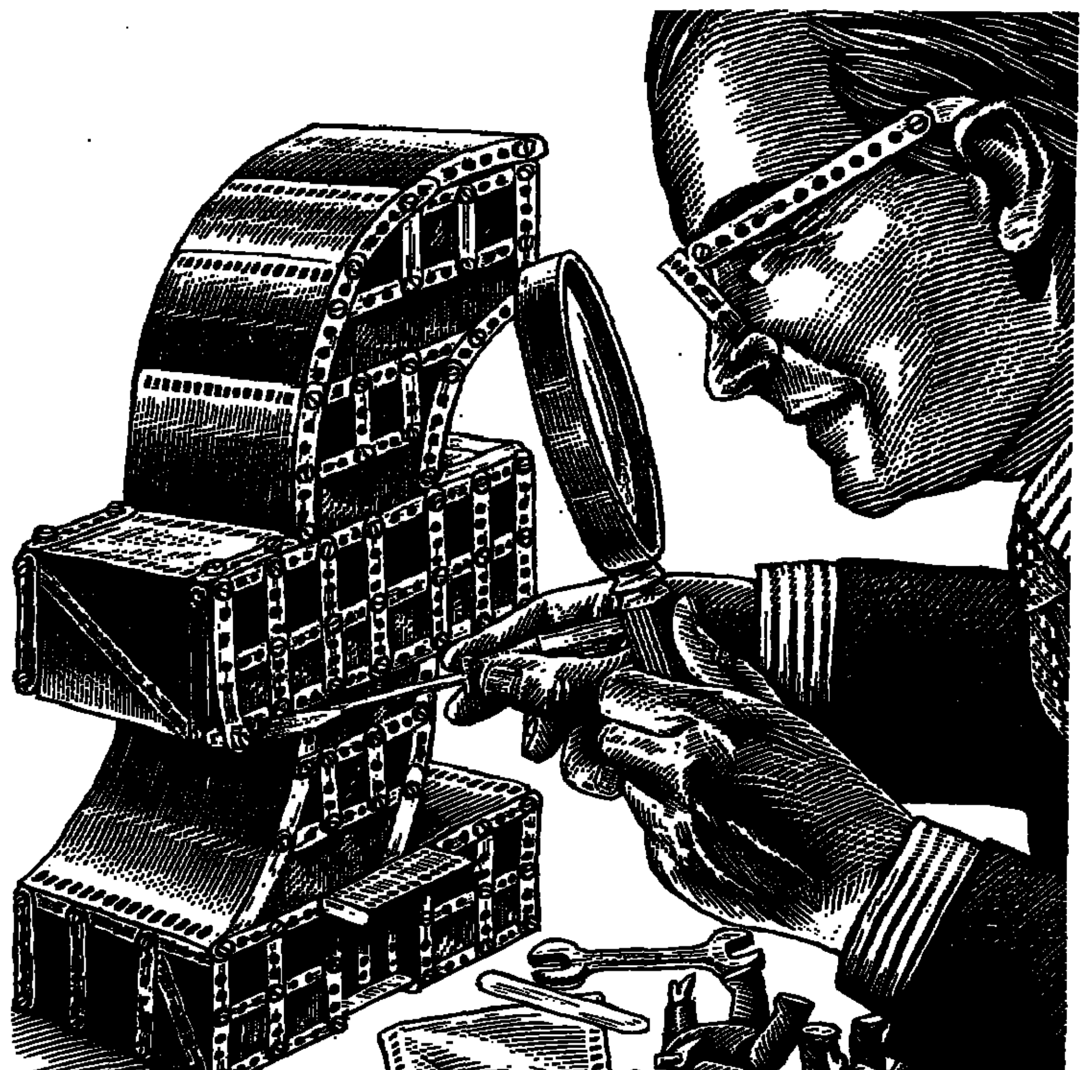


Giant with feet of clay

The passionate defence of re-engineering by Michael Hammer and Steven Stanton (FT, October 5) against what they see as misconceived criticisms is a sign that this precocious giant among modern management nostrums is suffering from growing pains.

There are three reasons why the spectacular, early success of re-engineering has failed to blossom.

The first is that its status, within the overall management scheme, is unclear; the second is that, as a consequence of the first, re-engineering can be extremely dangerous, and the third is that re-engineering is already out-of-date, in that it is a cost-cutting and restructuring technique, at a time when the prevailing management focus is switching to growth.

The equivocal status of re-engineering stems from the fact that it has great power to change an organisation but that, notwithstanding the protestations of its evangelists, it lacks a correspondingly powerful business philosophy.

Hammer says he is co-founder of the "re-engineering movement" and if it was a "movement" that began with the publication of *Reengineering the Corporation*, his claim is justified. But is it a "movement", in the sense of the "labour", "co-operative", or "building society" movements? A "movement" is a philosophy, and a call for action. Re-engineering calls loudly for action, but its philosophy is prosaic in the extreme.

It simply replaces the old "if it ain't broke, don't fix it" prescription with the more challenging and constructive injunction: "make all your processes the best-in-class". Its focus is on corporate mechanics, not on vision or strategy.

The mistake is to claim it is something more than that. It provides no answer to such questions as "which processes should I re-engineer?" and "what strategic objectives will I have achieved, when I have finished?" It will prescribe the discarding of processes when their functions can be assumed by other processes, but it cannot say a process should be discarded because its function has become strategically superfluous or that a process *should be out-sourced*, because it would take too long, or cost too much to re-engineer.

The dangers of this strategic silence were exposed in the tale of a hypothetical catastrophe recounted in the Harvard Business Review by Francis Gouillart and Fred Sturdivant of Gemini Consulting. A market-leading printing company was losing market share to a rival offering quicker order-to-delivery. The market leader's order-to-delivery process was re-engineered, by cutting its larger product line, to reduce machine set-up time. Order-to-delivery time fell, market share stabilised and a re-engineering success was celebrated. But, through a combination of competitive re-engineering and benchmarking, all firms in the industry soon had the same product line, the same order-to-delivery time and the same strategy, to become the lowest cost producer and compete on price.

A better strategy, Gouillart and Sturdivant argued, would have been for the market leader to make the length of its product line a strength, and develop separate processes for short and long production runs. But this would not have occurred to the re-engineers because the only strategy they have *built-in is cost-minimisation.*

The reason why re-engineers, armed with benchmarking data, are so dangerous is that as soon as the stimulus of re-engineering becomes discrepancies in benchmarking data, all firms in an industry start converging on a point of no difference and thus of no profit.

The distinction between qualification, and differentiation criteria helps to explain the danger.

Qualification criteria are attributes every firm must have to join the game; differentiation criteria give a firm an edge. It is in the nature of competition that today's differentiation criteria will be tomorrow's qualification criteria. A few years ago, quality gave an edge, but quality is a "commodity" now. The dialectic of competition is inescapable – if a new thing works, others will copy it.

A year ago re-engineering was a differentiation criterion. Now every company is re-engineering, it has become a qualification criterion, and the danger is that, left to its own devices, it will drive out all strategies except cost minimisation.

Hammer's and Stanton's assertion that "those who do it [re-engineering] right, succeed", is not only tautological; it is also dangerously *misleading. The measure of the success* of a re-engineering programme is not the efficiency of the re-engineered processes, but the contribution it makes to the achievement of the firm's strategic objectives.

TL

The author is editor of Gemini Consulting's journal, Transformation.

PIONEERS AND PROPHETS

Joan Woodward

Industrial surveys in places like south-east Essex are so common these days that they seem an unlikely foundation for management immortality. Yet the conclusions which Joan Woodward (1916-1971) drew from research into 100 medium- and large-sized firms in that part of England in the early to mid-1950s have ensured her a place in the pantheon of modern organisational thinkers.

Together with others (including Tom Burns who featured in this column last week) Woodward made a lasting contribution to the school of contingency theory. This held that if companies were to perform well their structures should be appropriate to the technology they used, their product diversity, the rate at which they were changing and their size.

Woodward's findings – notably that different types of production process had particular structures, management hierarchies, and "spans of control" (numbers of people reporting to one supervisor) remain relevant today. "Looking forward from Woodward to see in what directions our knowledge about organisations has been extended, one finds a bewildering array of empirical and theoretical work," write former colleagues Sandra Dawson and Dorothy Wedderburn of Imperial College, London in their introduction to her classic *Industrial Organisation, Theory and Practice**. "But the contribution of Woodward is not obliterated."

Much of what she discovered has been incorporated into received management wisdom, while the recent shift towards services – an area in which she did relatively little work – means her significance is sometimes overlooked. It can be argued, however, that the contemporary debate on delayering and business process re-engineering – the latter a *management approach made* possible mainly by improvements in information technology – is a dramatic reaffirmation of her ideas.

Later research by Woodward and others at Imperial – based in part on more detailed case studies of some of the south-east Essex sample – explored how companies exert control over their operations. They found that control systems could be categorised around two variables: the degree to which control was exercised either personally or indirectly (with the idiosyncratic supervisor on the spot at one extreme and impersonal administrative or automated procedures at the other); and the degree to which methods of control were either localised in each unit of a company or integrated and reconciled centrally.

Operations and planning manager of a munitions factory during the second world war and consultant to a number of companies including Pilkington and Ford, the woman who became Imperial's Professor of Industrial Sociology in 1969 is perhaps a worthy role model for today's management academics. "Her theory always came out of practical experience, she was always interested in the real world," recalls Wedderburn.

**Reissued in October by Oxford University Press. £14.95.*

Tim Dickson

You can't judge a book by its reviewer

ADRIAN FURNHAM

Most managers claim not to have the time to read management books. Fewer are prepared to admit that the effort is probably not worth the gain. But *most would, in theory, like to sound* erudite and well-read by mentioning famous gurus and their latest concepts. The easiest way out seems to be to read not the book, but the review which might give the gist of a 50,000-word book in 500 words. Do book reviews tell more about the author, *the book or the reviewer?*

I believe it is the latter, and furthermore that regular reviewers are gratuitously nasty. They know that only pessimism sounds profound; that being a prophet of doom and gloom and biting criticism makes them sound wise and insightful, *while optimism and praise are perceived* as foolhardy and ignorant.

In a paper called "Brilliant and Cruel", the American psychologist Teresa Amabile asked people to judge excerpts from matched negative and positive book reviews. She found that negative reviewers were perceived as more intelligent, competent and expert than positive reviewers, even when the content of the positive review was independently judged as being of higher quality and greater forcefulness.

She believes that most reviewers know this and that it is simply a self-presentation strategy by the intellectually insecure. Certainly, there is nothing inherently more intelligent in criticism than praise. W.H. Auden pointed out that one *cannot attack a bad book without* showing off, but some reviewers apply that dictum to all books.

Management book reviews perhaps tell us most about the reviewer, something about the author, but frequently little about the book.

Nearly 100 years ago Thorstein Veblen pointed out that many of the rich of his time engaged in conspicuous consumption. They bought and displayed products to show off their taste, wealth and refinement. All advertisers have exploited this *fact and are able to distinguish* between a product and an image.

Thus we have the company BMW, whose product is the motor car, but what is really being sold? An upmarket image. Louis Vuitton makes luggage but sells prestige. Disney *owns and runs theme-parks but sells happiness, fun and an* innocent view of the world. As we can see from advertisements, a variety of manufacturers of breakfast cereals are selling not muesli and cornflakes but fitness and health. What does Estée Lauder sell? The product is make-up, but hope is what it sells.

It is not a bad discipline for employees struggling with mission statements or "who-is-your-customer" quizzes to attempt to distinguish the product, tangible or intangible, from what is truly being sold to the consumer.

Consumer boycotts are increasingly common in the UK. Some are media-oriented, where announcements and pleas are made with passion, drama and supposed legitimacy by individuals or organisations. Others are market-oriented where particular brand names are targeted by lobbyists and protectionists. Some pressure groups aim to "educate", that is to proselytise rather than to boycott.

But what these consumer affairs activists have in common is that they purport to speak on behalf of others. Most behalfers claim to represent the consumer – which is patently absurd precisely because consumers have highly varied, indeed conflicting, needs. Have they ever been elected? Worst, there is no way they can know consumers' needs, wants or wishes.

Newspapers through sales, companies through market-research, even politicians through their surgeries get some idea of the feelings, beliefs and behaviour of the public, *but behalfers rarely have access to* the diversity of public opinion.

Most are against things, anti this or that and in favour of more life-style control or legislation. It would be hypocritical to attempt to ban or restrict behalfers but no one should take them seriously.

I often travel long-haul on east Asian carriers, fortunately near the "front-of-the-bus". The cabin crew have a deserved reputation for being conscientious about their somewhat mundane duties. But are they over-staffed? Last week I had a long flight on KLM in business class. The steward was attentive without being intrusive, charming but not rule-driven, comfortably tri-lingual and good at reading passengers and anticipating their needs.

Alone he served 20 filled seats two full meals. Compared with other carriers the "staff-student" ratio was low but the service exemplary. Perhaps, we Europeans really have woken up to the threat of the Pacific Rim countries. The long night of over-staffing may be coming to an end.

The author is head of the Business Psychology Unit at University College London.

PEOPLE

A radical solution for Japan's double whammy

Nippon Steel's **Takeshi Imai** tells **Michiyo Nakamoto** how he thinks Japan should deal with a strong currency and domestic recession

In just six short months, Takashi Imai has pulled off a spectacular coup which has roused the envy of many of his colleagues in Japan's business world.

Without so much as a whimper from Nippon Steel's unions, the president of the world's largest steel company has lost 4,000 jobs from a total payroll of 36,000 across the country. The majority of the 4,000 – most of whom are white-collar workers – have been transferred to subsidiaries and affiliated companies. They had expected to return from secondment to Nippon Steel eventually; now they find that their move is permanent.

But as far as Imai is concerned, this achievement is only one step in the pressing task of corporate and economic restructuring facing Japan. Sitting in his office on the 20th floor of the headquarters building in the heart of Tokyo's business district, the soft-spoken Imai preaches the need for far-reaching changes.

Ever since Japan's economy has been subjected to the double whammy of a strong currency and domestic recession, one of the biggest headaches confronting business executives has been how to reduce spiralling labour costs with the minimum of social upheaval.

"Looking back at the two oil shocks and at the yen's rise against the dollar, it can be said that it was the yen's appreciation this time which has had the worst impact on the Japanese economy," says Imai.

At 64, Imai has been at the helm of Nippon Steel, a classic example of Japan's spectacular industrial success since the second world war, for the past two years. He has experienced the ups and downs of Japanese industrial development at close hand.

On graduating from Tokyo University's law faculty in 1952, he immediately joined Fuji Iron and Steel; he then rose steadily through the ranks of Nippon Steel which was created through the 1970 merger of Fuji and Yawata Steel.

The yen's latest rise, he says, has had a devastating effect on Japanese corporate profits. The squeeze has been such that even with official interest rates at historically low levels for over a year, companies have been reluctant to resume capital spending.

In the case of Nippon Steel, with total revenues of about Y2,000bn ($20.83bn), the effect of the yen's appreciation has been to slash revenues by 15 per cent, or Y300bn.

Worse yet, in the longer term, the yen's surge against the dollar raises the cost of domestic manufacturing on a dollar basis, thereby robbing Japanese companies of their international cost competitiveness, Imai warns.

This situation has led to something of an exodus by Japanese manufacturers to other parts of Asia which have lower production costs. But this is not an easy option for industries which need to make use of as much excess capacity at home as the Japanese steel industry is thought to have.

A more fruitful solution, then, would be to bring the cost of manufacturing in Japan more in line with international standards.

On a corporate level, this means trimming bloated workforces and bureaucratic organisations that hinder efficiency and maintain high costs.

To this end, Nippon Steel has introduced a programme of cost-cutting over the next three years by which it hopes to recoup the Y300bn fall in revenues it has suffered from the yen's rise. Imai is confident. "We believe we can complete half our targeted cuts by the end of January," he says.

But on a wider front, bringing the cost of manufacturing in Japan closer to international standards requires a wholesale review of both the Japanese corporate system and the structure of the Japanese economy.

Take, for example, the annual spring wage offensive. This institutionalised system of wage bargaining was useful when the economy was growing. "When manufacturing [capacity] is increasing or living costs are rising then it is necessary to raise wages," Imai says.

But that is not the case today; living costs are stable, real wages are rising, and given that manufacturing is not expected to grow as it has in the past, "it is necessary to keep wages down for some time," he asserts.

Imai, who is widely respected as a considerate leader with a sharp mind, clearly practises what he preaches. Last year, along with other Nippon Steel executives, he did not receive his annual bonus – considered part of an employee's salary in Japan. His and other executives' salaries were cut 10 per cent in 1992, and by another 5 per cent this year.

Although Japan's blue chip companies have publicly declared lifetime employment to be sacrosanct, Imai emphasises, albeit quietly, that it has contributed to the high costs of Japanese industry and therefore needs to be reviewed.

This need to bring costs down extends to the whole of the Japanese economy; manufacturing industries which export their products and compete in the international marketplace at Y100 to the dollar exist alongside protected service industries – which are therefore operating with an exchange rate equivalent to Y200 to the dollar, Imai says.

Stringent government regulation has not only kept the cost of manufacturing much higher than in other countries, it has also prevented the Japanese from fully enjoying the country's wealth, which should have been enhanced by the yen's recent rise. "That is why the business community has been saying that regulation is the cancer of Japan, because it is keeping prices up," Imai continues.

Along with many of his fellow executives in the business community, Imai has called for far-reaching deregulation of the Japanese economy; this would introduce competition into uncompetitive industries, particularly the service industries, and help close the price gap between Japan and the rest of the world.

Deregulation would also encourage new businesses to start up – thus lessening the impact of the unemployment created by the restructuring of much of the rest of Japanese industry, Imai believes.

While to western eyes these ideas would seem logical, in a country which favours harmony and gradual transition, such steps would lead to social upheaval and invite potentially harsh criticism.

Imai's dedication to change, coming as it does from the head of a company which has long served as a model of Japanese business propriety, is a measure of the urgency and commitment Japan's business community feels is essential if it is to overcome its latest, and perhaps most challenging, ordeal.

N NAMES IN THE NEWS

Everything rosy in Meyer Kahn's beer garden

Watch out for Meyer Kahn, the boisterous chief executive of South African Breweries, writes Mark Suzman. He wants to become a global player in the international beer market, yet international investors would prefer him to stick at what he knows best – managing a business which promises 5 per cent plus annual volume growth for years to come.

Like many South African firms, SAB was forced to turn inward during the apartheid era and tried to balance its stranglehold on the domestic beer market by diversifying into areas such as retail and manufacturing.

But it is its domestic brewing business which has caught the eye of international investors keen to play the South African stock market. After Anglo American empire, SAB is the premier blue chip and its shares are more highly rated than those of many brewers in far more politically stable parts of the world.

Since the lifting of sanctions, Kahn, an irrepressible optimist about his country's future, has wasted little time in pushing abroad. Already the sixth largest brewery in the world by volume, the group's international subsidiary, Westgate, has acquired breweries in Hungary, Tanzania and, most recently, China. At the same time, the company's strong brands, Castle and Lion lagers, have attracted a rapidly growing international following.

Kahn sees the developing world as his core market. He feels he has a significant comparative advantage over the likes of Anheuser-Busch and Heineken in these areas and denies any interest in competing head on with them in Europe.

More bubbles for Jacuzzi

The next time you step into a *Jacuzzi whirlpool* bath spare a thought for Roy Jacuzzi, 51, the man credited with bringing the bathtub out of the water closet, writes William Hall. He started in the business when he was 12, is responsible for more than half of Jacuzzi's 200 patents, and shows no sign of wanting to step down as the king of the world's whirlpool business.

Roy's grandfather, who emigrated from north east Italy, set up a mechanical engineering workshop in California in 1910. Soon he was making *aircraft propellers* and built a passenger aircraft used by the US postal service.

Having diversified into irrigation pumps, Roy, who was head of research, stumbled on the whirlpool by accident. One of his cousins suffered from arthritis and Roy built a pump into the bathtub so that his cousin could benefit from the water and air-jet treatment prescribed by the doctor.

In 1968 Jacuzzi started selling his whirlpool baths – he called them Roman baths – from the back of a lorry at $700 a time. In 1974 President Ford installed a Jacuzzi in the White House and the business took off. Today the company has operations in Canada, Italy, Chile and Brazil, employs 2,200 people and turns over $400m a year.

It has sailed through the recession with no problems. Indeed Hanson, which has owned the company since 1987, is so impressed with Jacuzzi's "exemplary levels of profitability" that it has decided to make Roy (below) chairman of Jacuzzi Inc. Since he is already president and chief executive it does not mean an awful lot. But it is the sort of extra trimming which would have made his poor grandfather proud.

Thompson digs in at Cominco

David Thompson would undoubtedly prefer to remain the backroom financial wizard of Vancouver's Keevil family, writes Bernard Simon. Instead, he has been thrust into the high-profile job of chief executive of Cominco, the big international lead and zinc producer.

A long battle against leukaemia has forced Cominco's present CEO, Robert Hallbauer, to give up the reins as from January 1. "Everybody would really have wanted Bob to stay on if he possibly could, and I would have stayed here," says the self-effacing Thompson from Teck Corporation, the Keevils' flagship company, which owns 36 per cent of Cominco.

London-born Thompson has been Teck's chief financial officer since emigrating to Canada 14 years ago. He was previously joint managing director of Messina, the South African copper and industrial group.

Now 55, Thompson has helped mastermind Teck's expansion. His achievements include painstaking negotiations in the early 1990s with a group of Japanese steel mills and dozens of international banks which led to the financial restructuring of Quintette, North America's biggest coal exporter.

Cominco has been through a tough period. Technical problems have plagued its Red Dog zinc mine in Alaska and the Trail smelter complex in British Columbia. The company has cut off several limbs, including a fertiliser business and a steel producer. Relations with British Columbia's left-of-centre government have at times been strained.

But with the help of sharply rising metal prices, Cominco's fortunes have recently improved. Its new Quebrada Blanca copper mine in Chile began production last summer, and it is forging ahead with a development in the Yukon.

Earlier this year Cominco bought control of Peru's biggest zinc smelter and is already studying a sizeable expansion of the plant. "We hope the difficult years are behind Cominco," Thompson says. "What I'll try to do is to focus people on new opportunities, because the company has to grow."

CONTRACTS & TENDERS

PROMET ENGINEERING (SINGAPORE) PTE LTD

INVITATION for pre-qualification for the procurement of "goods" for:

HUB RIVER FUEL OIL PIPELINES PROJECT IN PAKISTAN

1. Asia Petroleum Limited has applied for a loan from the World Bank (WB) towards the cost of the Hub River Fuel Oil Pipeline Project in Pakistan and it is intended that part of the proceeds of this loan will be applied to eligible payments under the contract(s) for which this invitation to pre-qualify is issued. The funding facility will be extended through the Private Sector Energy Development Fund (PSEDF) administered by the National Development Finance Corporation (NDFC) and will be as per the WB/PSEDF guidelines. This facility has been established by the Government of Pakistan under an arrangement with the WB to finance energy and infrastructure projects in the private sector.

2. The Hub River Fuel Oil Project comprises the engineering, procurement and construction activities associated with underground cross country 36" and 14" high pressure fuel oil pipelines, and associated facilities. The pipelines are designed to supply heavy furnace oil from the Marine Oil Terminal (at Port Qasim) to storage tankage at Pipri Terminal and from there to storage tankage at Hub Power Company (HUBCo). The pipeline originates at the Marine Oil Terminal located at Port Qasim, Karachi, Pakistan and ends at the Hub Power Plant at Khalifa Point in the Hub District of Balochistan. Total overall length of the pipeline is approximately 85 km.

3. Promet Engineering (S) Pte Ltd (PE(S)PL), the *Engineering, Procurement and Construction* Contractor for this project invites, on behalf of APL, interested and suitably experienced and financially sound international suppliers and fabricators to submit for pre-qualification for:

   (a) The supply of major components for the pipeline including, but not limited to: line pipe, pipe coating and insulation, mainline valves and scraper launcher/receivers.

   and/or

   (b) The supply and fabrication of modularised equipment complete with instrumentation, control panels, etc. including, but not limited to: mainline pumps and drivers, booster pumps and drivers, heat exchangers, boiler packages, water cooling system, instrument air system, meter and meter provers, pre-fabricated control building complete with Supervisory Control and Data Acquisition system including fibre optic communications, and diesel purging facilities.

4. **Scope of Work**

   The scope of work consists of the procurement and fabrication of major components for 36" and 14" underground cross country high pressure fuel oil pipelines designed to supply heavy furnace oil from the Marine Oil Terminal (at Port Qasim) to storage tankage at Pipri Terminal, Sind Province and from there to storage tankage at Hub Power Company (HUBCo), Baluchistan Province.

   The procurement would involve, but not necessarily be limited to, the supply and delivery of:
   - Line Pipe – *both* 36" and 14" diameter, ERW type to APL *specification*
   - Pipe coating and insulation
   - *Pipeline valves and ancillary associated equipment*
   - Scraper launchers/receivers
   - Other Long Lead Mechanical and Electrical Equipment and Instruments

   It is envisaged that the following items will be provided as modularised units:
   - Mainline (positive displacement type) and Booster Pumps (centrifugal type) complete with drivers and associated controls
   - Heat exchanger package(s)
   - Boiler package(s), including water treatment
   - Air system
   - Diesel purging system
   - Meters and meter provers
   - Water cooling system
   - Pre-fabricated control building complete with Supervisory Control and Data Acquisition system including fibre optic communications

5. Pre-qualification is open to firms and voluntarily formed joint ventures from eligible source countries as defined under the "Guidelines: Procurement under IBRD Loan and IDA Credits." Domestic contractors may apply for qualification independently or in joint venture with foreign contractors.

6. Interested eligible suppliers and constructors may obtain further information and inspect the pre-qualification documents at the following address:

   PROMET ENGINEERING (S) PTE LTD
   21 Pandan Road, Singapore 2260
   Tel: (65) 266 0312 Fax: (65) 261 1784

7. A complete set of pre-qualification documents may be purchased by any interested eligible applicant on the submission of a written application to the above address (Attention: Project Director) and upon payment of a non-refundable fee of US$200. Requests submitted by mail should include a certified cheque in the amount and currency indicated above in favour of **Promet Engineering (S) Pte Ltd**. The document will be promptly despatched by registered airmail. Under no circumstances will APL or PE(S)PL be held responsible for late delivery or loss of the documents so mailed.

8. The pre-qualification documents must be duly completed and returned to the address noted at Para 6 above, before the specified pre-qualification closure date (nominally 45 days after date of placement of initial advertisement).

9. All contracts emanating from this enquiry to suitably qualified supplier will be executed between Promet Engineering (S) Pte. Ltd., the (EPC) Engineering, Procurement and Construction contractor, acting as the "Employer" on behalf of Asia Petroleum Limited, and the supplier(s).

MEDIA FUTURES

Fujitsu plans digital challenge in US

The Japanese computer group is preparing for a head-on multimedia clash with Microsoft, reports **Alan Cane**

Fujitsu, Japan's largest computer manufacturer, is planning a multimedia initiative in the US, which could bring it into head-on competition with Microsoft, the world's biggest software house.

In April next year, it plans to launch a US version of a futuristic, on-line role-playing game which it has been testing for more than seven years in Japan. Called Habitat, it creates a fantasy world on screen – a virtual city in cyberspace, as multimedia experts would describe it – populated by characters who take on the personalities of the players. There are some 10,000 regular subscribers in Japan.

Japanese sociologists are already fascinated by the way people behave when allowed to adopt these electronic alter egos. Within Habitat there is a "head shop" where players can change their heads, and a "paint shop" where they can change their clothes.

However, Habitat – which Fujitsu bought from the Lucas Arts Entertainment Company, owned by George Lucas, director of "Star Wars" (see below) – is more than a game. It can function as an attractive, simple-to-use interface to a broad range of information and educational services. Students can send messages to each other on an electronic campus; shops and banks can be created on screen; and players can send their electronic images off on shopping trips.

Tatsuzumi Furukawa, Fujitsu main board director and multimedia projects group manager, says that Habitat will be the first test of Fujitsu's multimedia capabilities outside Japan. If it proves successful, the service will be extended to Europe, beginning with the UK in 1996.

A successful Habitat in the US would find itself in direct competition with Microsoft's planned Microsoft Network, an on-line information service which the software giant is expected to launch next spring, and which will feature shopping catalogues, financial services and news services. Microsoft's prices are expected to be significantly below those of existing on-line services such as America On-Line or CompuServe. It is expected to offer a simple user interface, based on Microsoft's best-selling Windows software.

Much will depend on the quality of information available over the respective networks. Bill Gates, Microsoft's chairman, has been busily signing up information providers in anticipation of the start of Microsoft Network.

Fujitsu operates Japan's leading on-line business information service, Nifty-serve, in partnership with Nissho Iwai. In 1993 it had revenues of \$130m (£79m) and profits before tax of about \$13m. Nifty-serve has a relationship with CompuServe, of the US, but Furukawa agrees that over the next few years Fujitsu will have to form alliances with a broad range of information providers. Some will be simple commercial relationships, but others will be strategic partnerships: "If an information provider wanted to start a new kind of service, we would be able to help," Furukawa says. "We have substantial experience now."

Fujitsu's venture in the US is just one indication of the importance it attaches to multimedia. It has set a target of expanding sales of multimedia-related products and services to reach 20 to 25 per cent of revenues by 1997. Currently the category accounts for only 2 to 3 per cent the group's sales.

As a leading electronics manufacturer, it already provides much of the hardware which is making multimedia possible. It supplies, for example, four out of the seven regional Bell operating companies with switches and optical equipment for asynchronous transfer mode transmission, the new technology which is expected to underpin the information superhighway.

Fujitsu sees multimedia, however, as the leading edge of its translation from a predominantly hardware manufacturing group – it is best known for its IBM-compatible mainframe computers – to a services orientated business. The company is becoming involved in content, developing and marketing information, entertainment and educational materials. Last June, it established a Digital Media Group to co-ordinate these activities.

The group has a core of researchers who worked on software for Fujitsu's pioneering FM-Towns multimedia personal computer (launched some six years ago) and on three-dimentional animation. The idea is to seek out and work with Japanese and overseas partners to develop and market software and programs for CD-Rom, PC on-line communications, cable TV and other media platforms.

Furukawa says: "It is something we are taking step by step. In the US there are many trials of multimedia developments such as video-on-demand. But we are concerned with how to make a business out of multimedia after the trials are over."

The company has a three-pronged approach to the market

- First, there is the on-line information business, represented by Nifty-serve and Habitat. Fujitsu has a strategic alliance with Sharp, the consumer electronics company, which has sold some 400,000 personal digital assistants (hand-held computers capable of accepting handwritten instructions). The two companies are planning to link Nifty-serve to the PDA, to create a mobile on-line information service.
- Second, cable television. This is a novel service in Japan, and subscriber numbers are low. But Fujitsu has invested in some 23 cable television companies. It is a limited experiment; the investment in each amounts to only 15-20 per cent of the equity, but it is providing a test-bed for trials of interactive services.
- Third, business multimedia. Fujitsu is marketing Team Office developed by ICL, its UK subsidiary, in Japan. The software makes it possible to share documents, and for colleagues to work together using linked personal computers.

Fujitsu and ICL agreed to work together on multimedia developments last year. The cultural shift was as great for ICL as for its parent. From marketing large mainframes it had to focus on the home market, education and entertainment.

McKinsey, the management consultancy, worked with the company for four months to help ICL understand the dynamics of such a new market. The first fruits – kiosk systems for the retail and financial services industry – are now on trial with customers such as Argos, Woolworths and the Nationwide Building Society.

Darth Vader in TIE Fighter from Lucas Arts, the games subsidiary created in the early 1980s by Star Wars director George Lucas

Film empire strikes back

Games are feeling the force of Hollywood, says **Alice Rawsthorn**

Any Star Wars buffs who ever dreamt of fighting the Rebel Alliance by flying an Imperial star-fighter under Darth Vader's command can now act out their fantasies by buying TIE Fighter, one of the dozens of new computer games on sale this Christmas.

TIE Fighter is the latest launch from Lucas Arts, the games subsidiary created in the early 1980s by George Lucas, director of Star Wars, at his state-of-the-art entertainment laboratory at San Rafael, California.

Mr Lucas, who dropped out of the Hollywood mainstream over a decade ago to pursue his passion for technology, was a pioneer of the use of movie themes and characters in games. His Star Wars games often feature at the top of the computer games charts and the Hollywood studios are now racing to follow Lucas Arts into the games sphere. Time Warner earlier this year acquired Renegade, a games software house. New Line, the film company owned by Ted Turner, the new-media mogul, recently formed a \$30m (£18m) joint venture with France's Havas to develop a global games business. Even record companies are muscling into the market. Motown, the music label owned by PolyGram, recently launched a Motown Games subsidiary.

The next convert to the games sphere is mooted to be Walt Disney, which is expected this week to announce plans for the formation of a new interactive entertainment division. Disney, like other studios, presently licenses its characters for use in games devised by other companies such as Sega and Nintendo, the Japanese games specialists.

The catalyst for Hollywood's sudden surge of interest in computer games is the emergence of the new generation of disc-based games. The games market has since the early 1980s been dominated by the 16-bit cartridge consoles made by Sega and Nintendo.

For the past year or so the market has been moving towards disc-based games played on home computers and multimedia machines that are able to play CD-Roms, or interactive discs. Lucas Arts and other companies have already made the most of the enhanced qualities of disc medium to create more sophisticated games. They will be able to reach new levels of sophistication with the next wave of change – the launch of the 32-bit and 64-bit disc-based games, that are now being introduced in Japan and will come out next year in the US and Europe.

These games are much more powerful than the old 16-bit cartridge consoles. They have the capacity to create cinematic sounds and images that are perfect vehicles for the characters and plots of Hollywood movies.

"There's no doubt that CD-Roms and the new games formats could become a phenomenal growth market," says Michael Lynne, president of New Line in New York. "All the attributes of a motion picture will soon be available on a computer screen, so we can apply our skills to create games and informative 'edutainment' products." New Line, like the other studios, plans to become more aggressive at adapting its movie concepts into games. However, Randy Komisar, president of Lucas Arts, suspects that Hollywood may have underestimated the complexity of the games market.

"There is scope to use the techniques of movie-making in a game – we do it all the time," he says. "But film is a linear medium and a game is a virtual experience. If you take the content of a movie to use in a game, it must be developed so that it is exciting and engaging in an interactive context."

A guide to UK telecoms

By Alan Cane

When the UK telecommunications industry offered little but POTS (plain old telephone services), choice was easy. There wasn't any.

Now that privatisation and deregulation have brought in PANS (pretty awesome new stuff), it's easy to become confused. What operator to use? What tariff to pick? Which mobile phone service? The options seem endless, and the individual companies do little to help the poor consumer choose.

Which is where The Deregulated Phone Book comes in handy. This simply produced, cheap and comprehensive guide to the UK telecoms scene is intended for domestic phone users and for businesses.

Richard McBrien, the publisher, says: "The average user still thinks a phone is just a phone, and that there is no real alternative to BT, except perhaps Mercury. One of the aims of the book is to change this culture".

The book is published by Running Heads, 82 East Dulwich Grove, London SE22 8TW. Tel 071 738 4096. Price £9.95.

Take me off to the high-tech ballgame

By Martin Mulligan

Jay Mariotti, racing his deadline for the Rocky Mountain News, types on his lap-top the closing words of his report. An earthquake has cut short the baseball World Series at Candlestick Park on the bay of San Francisco, interrupting the game between the Giants and the Oakland Athletics.

Tremors have rocked the press box. The stadium has been evacuated. Mariotti has a *very* big story. But even though he is a pack-leading techno-journalist, how does he file from a disaster zone?

Anecdotally, sports-writers are the most versatile professionals of their time: first to recognise and adopt the technologies that can make their working lives easier; routinely meeting deadlines that would give other journalists nightmares. They own arsenals of media machines.

To do his job, a typical US sports-writer will have a lap-top, micro-cassette recorder, mini-TV (to monitor a game while attending another), a radio and a car telephone as well as a home fax machine and a powerful computer.

The Chicago Bulls basketball team recently brought their press room up to state-of-the-art standards. But such conditions are rare. More often, sports-writers have to find ingenious ways to send their stories, surmounting technical difficulties that would appal colleagues on other newspaper desks.

"It's not enough to be a sports reporter any more," says Michael Mulligan of the Chicago Sun-Times, assigned to follow the Chicago Bears football team this season. "Now you have to be a computer expert and a phone expert as well."

Writers are responding – quickly – to the waves of change sweeping through sports generally, for sports organisations have also swiftly utilised the so-called information superhighway.

The NBA's Faxback service allows users to dial in to the NBA's database from a fax machine anywhere in order to call up statistics and press releases on any team or player 24 hours a day. Details can be faxed or uploaded into users' computers.

Sports coaches are taking analysis of games to extremes by using new technologies. Gone forever are the days when Adolph Rupp, basketball coach at the University of Kentucky, could post his play-book to his opponents with a covering note: "Here's what we're going to do. Try to stop us."

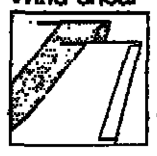
Game analysis is now a science. For a long time, sports coaches have been using video. "We even look for video cameras in the shower," says defensive end Trace Armstrong of the Chicago Bears.

Further ahead, the possibilities offerred by virtual reality devices are exciting. The day may not be far distant when a boxer or soccer player rehearses for a fight or game against a specially-programmed virtual double of his opponent.

Exactly how, in the end, did Mariotti file his story from the devastated San Francisco World Series stadium? Answer: he found a single intact telephone cable in the damaged stadium's parking lot. A colleague saw him, and within minutes 20 international sportswriters had lined up – in time-zone order – with their lap-tops. They may be techno-journalists but, strange to relate, sports-writers are also gentlemen.

BUSINESS TRAVEL

Wind shear



The first commercial aircraft with instruments to warn the pilot of potentially fatal wind shear flew from Washington to Cleveland last Wednesday.

Wind shear is a sharp difference in the speed of air movement from one spot to another nearby. It becomes a hazard to aircraft, primarily on take-off or landing. By the end of next year, every airliner – domestic or foreign – landing in the US will be required to have similar equipment.

"This is a significant step forward in aircraft safety," said Chuck Miller, president of AlliedSignal, which makes electronic systems for aircraft. The system has been three years in development.

Continental Airlines flight 1637 had little use for its bad-weather instrument on the maiden flight last week. If there had been turbulence containing microbursts – brief, powerful gusts of air, usually moving straight down – the pilot would have had up to 90 seconds' warning, enough time to avoid wind shear.

Shanghai smokes

In China's toughest move to date against smoking, Shanghai banned cigarettes in almost all public places from last Thursday.

The country's largest city has plastered "no smoking" signs everywhere from cinemas to department stores. Not even karaoke lounges are exempt from the ban, which carries fines, large by Chinese standards, of up to 2,600 yuan ($265).

Local reporters dashed around Shanghai trying to spot offenders. But most conceded the unthinkable was happening: hardly anybody was lighting up – or "eating smoke", as Shanghai people say. There are 300m smokers in China.

Train accidents

No passengers or staff were killed in UK train accidents in the 12 months to March 31 – for the first time since 1985.

But the number of collisions between passenger trains doubled, according to the Health and Safety Executive. There were also increases in the number of collisions between trains in stations, accidents at level crossings, and vandalism.

The number of "significant train accidents" rose from 133 to 142.

Airport tube

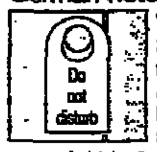
Heathrow airport's proposed £900m fifth terminal would be linked to the London Underground system.

LU, together with Heathrow, has applied to the UK government for permission for a £70m extension of the Piccadilly Line, giving the airport its third tube station.

The link would become operational in time for the terminal's proposed opening in 2002.

The extension is likely to face strong opposition from local people.

German hotel



Work started last week on rebuilding the Adlon hotel in Berlin, which used to be a magnet for the rich, beautiful and powerful in prewar Europe.

The hotel, in Pariser Platz, the square facing the Brandenburg Gate, is due to open in 1997 as a 346-room hotel in the "five-star-plus" category.

Last week Dusit Sindhorn, a Thai company, agreed to buy 50.2 per cent of the Kempinski luxury hotel chain, which has a 20-year lease on the Adlon property.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
Tokyo	14	13	14	18	[illegible]
Hong Kong	25	25	26	28	[illegible]
London	10	10	10	11	[illegible]
Frankfurt	9	7	8	10	[illegible]
New York	13	14	8	7	[illegible]
L. Angeles	17	18	20	22	22
Milan	9	8	9	8	[illegible]
Paris	10	9	10	13	[illegible]
Zurich	6	4	7	9	[illegible]

Maximum temperatures in Celsius

Information supplied by Meteo Consult of the Netherlands

Smart Guide: **Kuala Lumpur**

The in-between city

Kuala Lumpur (always referred to as KL by locals) is an in-between city. Visitors who come south from Bangkok are relieved to arrive in a less congested, greener city. But KL has a provincial feel about it and lacks the Thai capital's vibrancy and variety. On the other hand, those who travel northwards from Singapore are at first put off by KL's lack of efficiency and order. But, in spite of the traffic, they find a more relaxed, lively city than strictly controlled Singapore.

What is the best area to stay in?

KL is a comparatively small city, with a population of less than 3m, but it seems as though everyone drives a car, all the time. The main commercial district is referred to as the Golden Triangle. Most big companies, including banks and brokerage houses, have offices there. If you are visiting industrial areas in the satellite township of Shah Alam or elsewhere in the Klang Valley (the area surrounding KL), think about staying closer to the airport.

Where should I stay?

The Shangri-la, in the Golden Triangle, is generally considered to be KL's best business hotel. The cost for a standard room (regardless of single or double occupancy) is M$410 ($160) a night, plus 10 per cent service and 5 per cent government tax. However, costs can be almost halved if you organise a corporate rate: all this involves is a call or letter to the reservations manager.

Even if you don't have such an arrangement, it is worthwhile making inquiries on arrival. The same rules apply at the Regent Hotel. A standard room there is M$450 plus service and tax. The Regent is a short walk from the central business district but closer to the shops.

For something out of the ordinary, try the Carcosa. On a hill surrounded by parkland, the Carcosa complex was the HQ of the British during colonial times. It now functions as a state guest-house and hotel. The rate for a standard suite – non-negotiable – is M$950. The Hyatt Saujana, near the airport, has standard rooms at M$330 plus service and tax – and an attached golf course.

Recommended restaurants?

For Malay cuisine try either Sri Melayu or Yazmin, near the Golden Triangle. Both have low-key cultural shows each evening.

Extremely reasonable and appetising Indian vegetarian food can be found at Ana Lakshmi, in the suburb of Bangsar, while there is a number of good Chinese restaurants: food at the Hakka restaurant on Jalan Bukit Bintang is among the best. It also has the advantage of having outdoor seating (offices, hotels and restaurants throughout south-east Asia seem to delight in running air-conditioning systems at near-arctic levels).

Bon Ton near the Hakka restaurant is a pleasant and subdued western-style eating place. For something more old-fashioned, try either the Coliseum or Le Coq D'Or. Sizzling steak is a speciality at both, though the elderly waiters seem to enjoy abusing customers.

How about entertainment?

The nearest KL comes to distinctive entertainment after hours is at the Boom Boom Room, under the shadow of a church in one of the older sections of the city. There is good music and an interesting, slightly daring array of shows, many featuring transvestites dressed in their best. Don't go before 10pm. Another doubtful establishment is the Top End club in Wisma Stephens, in the business district – very badly lit, so be careful.

Otherwise KL has the usual range of discos, pubs and yuppie bars, which look dreadfully similar all over the world. Cee Jay's and Uno's, both near the Shangri-la, have good music.

What are the local business quirks?

Don't expect to settle anything on the telephone or by fax. Malaysian business people, like most in the region, want to *see* potential business partners. Though the Chinese make up only about 35 per cent of the population, they control the bulk of Malaysia's economy. Finding out who is who is vital. Even the bigger corporations tend to be tightly controlled by one man.

Getting around?

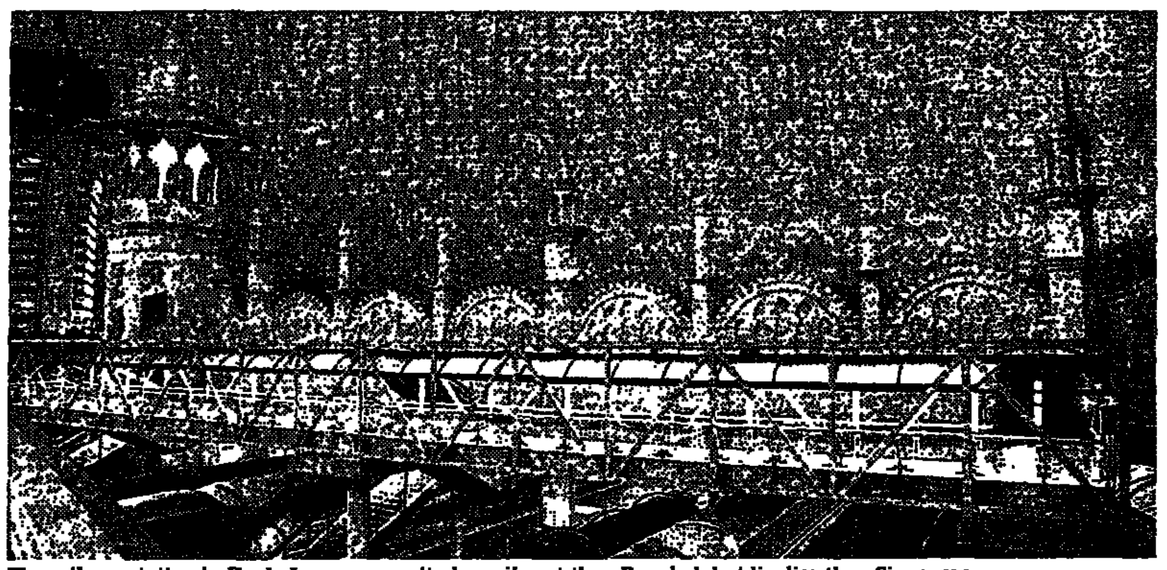
Traffic problems mean that it is unwise to aim for more than three or four appointments a day. Taxis are reasonable and can be hired by the hour. However, hiring a hotel limousine is usually more comfortable.

Suppose I have a spare day?

It is relatively easy to get out of KL, but make sure you go at non-peak hours. Malacca, on the coast, is about 2½ hours away by car (airport taxi drivers offer good rates for such journeys). It's a bustling town with old Dutch settler architecture and streets of recently restored Chinese shophouses. Malacca's Nyonya cuisine – a blend of Malay, Chinese and Indian – is worth trying. The Peranakan restaurant, serving *nyonya* food, is in an old Chinese house in Jalan Tun Tan Cheng Lok. There is another branch on the coast just outside town.

Fraser's Hill is an old highland resort about three hours' leisurely drive from KL, founded by a reclusive colonial metals trader at the turn of the century. At 1,530 metres, it offers cool nights and fresh air, and there is a pleasant nine-hole golf course. You can stay in bungalows where cooks serve up mushy peas and apple crumble. The jungle round Fraser's is slowly being ruined by some appalling construction work, so go soon.

Kieran Cooke



The railway station in Kuala Lumpur – a city less vibrant than Bangkok but livelier than Singapore — Chris Stowers

When smoke gets in passengers' eyes

Imagine sleeping away the overnight flight from San Francisco to London in a comfortable, non-smoking Upper Class seat on a Virgin Atlantic jumbo – only to be woken by waves of smoke puffed out 3ft away, writes John Westbrooke.

It happens because Virgin Atlantic has replaced a central block of Upper Class seats with a lounge: a circular table surrounded by chairs but not partitioned off. In line with the airline's hedonist philosophy, the area is used for massages and manicures – and for smoking, though the seats on either side are non-smoking. This can be a rude awakening for any traveller.

The airline says it is constantly monitoring passenger opinions on the question of smoking. For example, included in its new interactive video system, which is not yet available on all routes, will be questionnaires which Virgin hopes will enable it to canvass passengers' opinions on such topics, and respond promptly.

Nonetheless, Virgin is – uncharacteristically – lagging behind the non-smoking trend. The leader is Delta, which from January 1 will outlaw smoking on any route, anywhere. The response to its first non-smoking trials a year ago was so favourable that, though it expects to lose some passengers, it is going ahead with a complete ban.

The fact that Delta is an American airline no doubt helps. A bill banning smoking on all transatlantic flights is on its way through the US Congress. But it will be some time before anyone bans cigarettes on Middle East or East Asia routes, and some third-world airlines still split aircraft into smoking and non-smoking sections down the middle.

Canada and Scandinavia are among those that bar smoking on internal flights. The International Civil Aviation Organisation, a UN body, wants a worldwide ban by 1996, but this will be voluntary.

Other airlines say they are responding to customer wishes without aiming at ultimate smokelessness. When it has two flights a day between two cities, British Airways makes one of them non-smoking. All its services to Australia, and all short flights to and from Continental Europe, are already smoke-free.

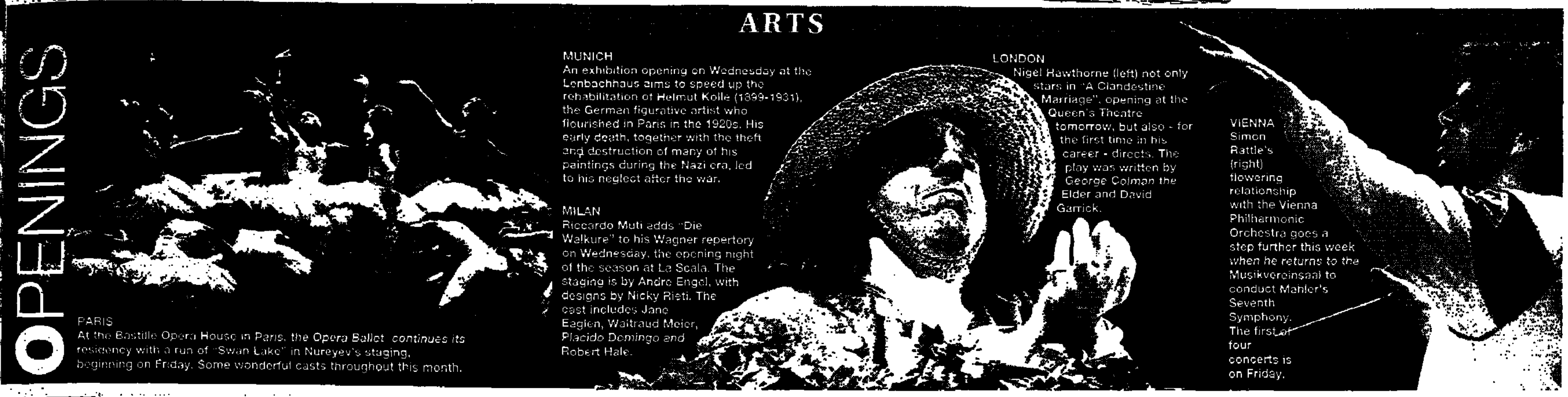
On the other hand, Scandinavian airline SAS last year imposed a trial ban on international flights and had to call it off after only two months, as passengers complained.

Feel free to tell your airline what you think about this issue: it will listen. Meanwhile, if you want to take your mind off your exposure to passive smoking, next year Virgin will introduce mail-order shopping and credit-card gambling on its entertainment channels.

هكذا من الاصل

ARTS

OPENINGS



PARIS
At the Bastille Opera House in Paris, the *Opera Ballet* continues its residency with a run of "Swan Lake" in Nureyev's staging, beginning on Friday. Some wonderful casts throughout this month.

MUNICH
An exhibition opening on Wednesday at the Lenbachhaus aims to speed up the rehabilitation of Helmut Kolle (1899-1931), the German figurative artist who flourished in Paris in the 1920s. His early death, together with the theft and destruction of many of his paintings during the Nazi era, led to his neglect after the war.

MILAN
Riccardo Muti adds "Die Walkure" to his Wagner repertory on Wednesday, the opening night of the season at La Scala. The staging is by Andre Engel, with designs by Nicky Rieti. The cast includes Jane Eaglen, Waltraud Meier, *Placido Domingo and* Robert Hale.

LONDON
Nigel Hawthorne (left) not only stars in "A Clandestine Marriage", opening at the Queen's Theatre tomorrow, but also - for the first time in his career - directs. The play was written by *George Colman the* Elder and David Garrick.

VIENNA
Simon Rattle's (right) flowering relationship with the Vienna Philharmonic Orchestra goes a step further this week *when he returns to the* Musikvereinsaal to conduct Mahler's Seventh Symphony. The first of four concerts is on Friday.

Forward planning or wishful thinking?

Antony Thorncroft talks to director of the Tate Gallery Nicholas Serota about his dreams for Bankside

Nicholas Serota has been making a list . . . *and indulging* in a pleasing fantasy: detailing the works of art that he would like to acquire for the Tate Gallery. Suddenly, his wish list is not just idle fancy.

A new "Tate Gallery of Modern Art" already seems a likely candidate for a National Lottery-funded millennium grant. The building – the abandoned power station on Bankside – is in place; the short-list of architects to design the transformation is selected; the Tate is confident that it can raise £40m, half the cost, from its own resources. It is almost time to fix the opening day in 2000 and draw up the guest list.

In the meantime Serota is planning how to stock his creation. The old Tate will remain the home of British art; the new Tate, which will be roughly the same size as the *old building at Millbank*, will continue the international history of art where the National Gallery leaves off, somewhere around 1905.

As a new century and a new millennium starts, there might be some gentle horse-trading between our two leading art museums, which these days enjoy a good relationship. Neil MacGregor at the National Gallery might pass over a Picasso or a Braque to the Tate in return for a Whistler or a Sargent, in a little chronological tidying up.

It will, however, be minor stuff. The bulk of the display at the Bankside Tate, which will total around *1,000 paintings and sculptures, will* come from the Tate's current collection: half from key works already frequently on view, the other half promoted from the vaults which, through pressure of space, always contain most of the Tate's holdings.

But approaching a third of the hang at Bankside, around 300 works, will, with luck, be acquired in the next five years. These will be modern masterpieces that will plug gaps in the Tate's collection.

And gaps there certainly are. Serota checks off his want list. "We've not much German or northern art; we want more Picasso and Matisse; we're *not strong on the Russian* constructivists; we've no Latin American art; we've not got the depth of the MOMA (New York) in pre-war art, or the Pompidou (Paris) in post-war."

Now the names come rushing out. "I'd love a late Bonnard, Matisse, Dix and Beckmann, Corinth, Giacometti, Brancusi, late Braque; we are not good on the Cubists". There is also the need to keep acquiring the contemporary – two of the five chronological divisions envisaged in the Bankside Tate will be devoted to post-1960 art.

Serota is proposing a three pronged attack. Some of the works on his list will come from loans, some from gifts and some from purchases. It is the thought of entering the market with a cheque book that gives Serota most pleasure. For over a decade the Tate's annual grant for new purchases has been frozen, a decade in which prices have soared. In the 1960s and early 1970s the Tate could still buy wisely and cheaply – a Brancusi "Bird" for £23,000; a Giacometti for £25,000. By the late 1980s the best works of contemporary artists like Jackson Pollock, Jasper Johns and de Kooning, to say nothing of established masters like Picasso, Matisse and Braque, were fetching over £10m in the saleroom.

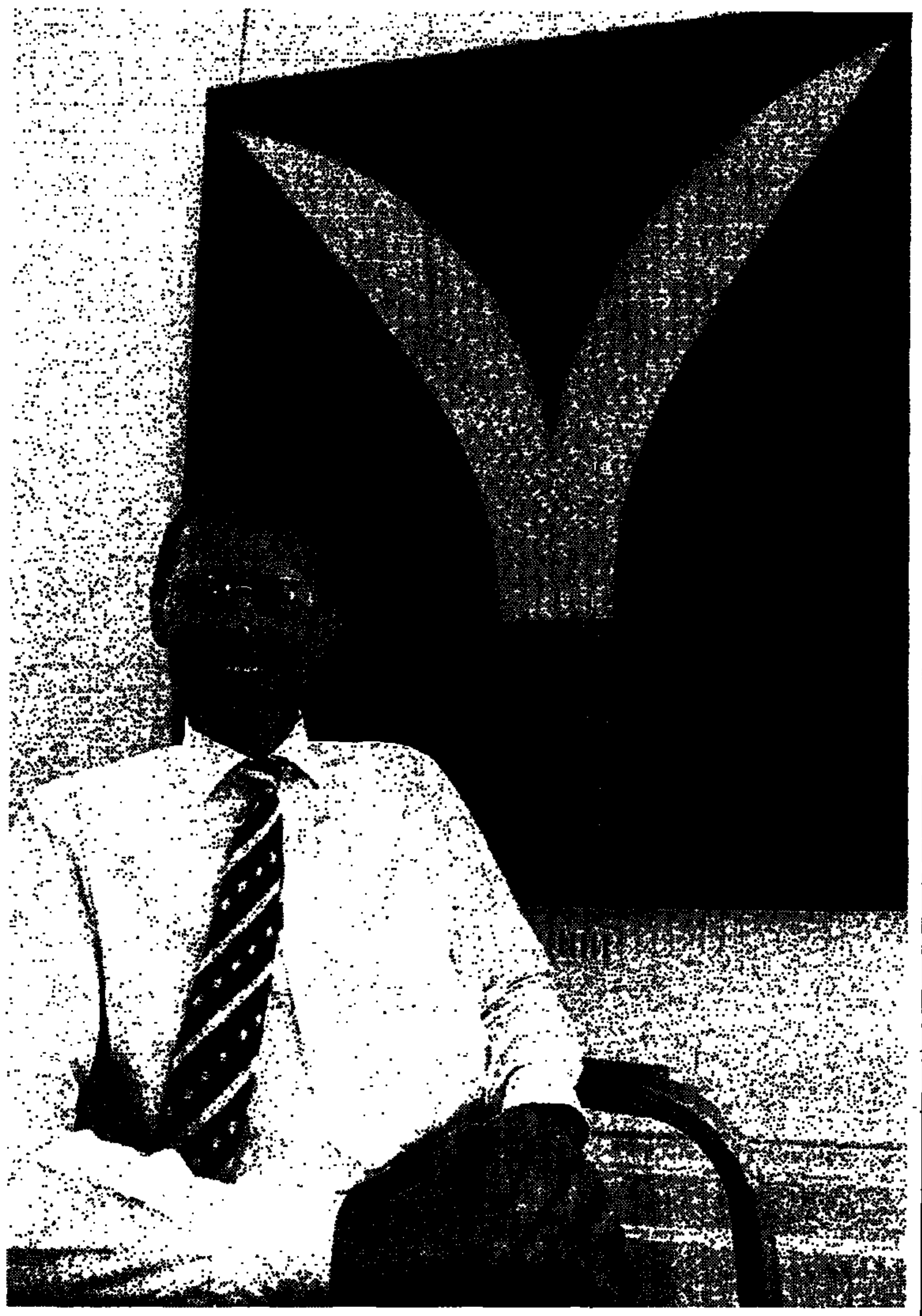
The Tate was forced to the sidelines. With help from the Friends of the Tate there have been some purchases – a *Richard Hamilton* was acquired only last week – but Serota says wistfully "I can almost always find something in a Sotheby's or a Christie's catalogue that I would like."

Wishes could become horses, thanks, once again, to the lottery. The Heritage Lottery Fund is prepared to be convinced that major works of art, suddenly on the market, might make an essential contribution to the British heritage – even if created by a Frenchman or an American. Serota hopes that if something marvellous comes up the Tate stands a chance of securing it, even *if it carries a £5m price tag.* This should embrace most of the masterpieces of the past generation, the area where Serota thinks the Tate can still build up a collection the equal of anything in Paris and New York.

After purchases come loans. This is the trickiest area. There are many dealers who would love to loan works by their artists in the certain knowledge that a spell on the walls of the Tate enhances their reputation and value. The Tate is circumspect here. Loans from serious collectors, and especially from artists, are acceptable, especially as a loan can, over time, merge into a gift.

The Tate has a good relationship with artists and will be looking for immediate gifts from them. This, too, can be a delicate matter: artists like to see their donations move swiftly from the vaults to the walls. In recent years the Tate has gratefully accepted a Francis Bacon triptych; a portrait head from Lucian Freud; a whole room full of works by Mark Rothko. When the Tate bought a Jasper Johns the artist threw in some sculptures and prints on loan; Giacometti sold a sculpture for a nominal price. Most artists will be attracted *by the idea of* ensuring immortality by contributing a work to Bankside – or so Serota hopes.

The Tate has been so successful in recent years that it is hard to imagine that this, Serota's greatest project, will fall apart. Let's leave him planning the future, acquiring two master works a year – "a great Beckmann and a late Bonnard; then a Picasso sculpture and an Otto Dix; a Giacometti to make a display never seen in the UK before, and another Brancusi . . ."



From famine to feast: Nicholas Serota in his office, in front of Peter Kinley's 'Yellow Flower' Andre Camara

Ballet/Clement Crisp

Knock-about classicism

The Royal Ballet's new triple bill has an awkward air. At its heart is Balanchine's *Symphony in C*, choreography that so perfectly responds to its score that a ballet-goer can surely never hear Bizet's early symphony without recalling the dazzle and grace of Balanchine's movement, and sense the bubbles sparkling in this champagne of the *dance. On Thursday night the fizz* was distinctly non-vintage, and in a couple of interpretations as flat as can be, but the patterns and the divine mechanics of the piece were there to see – perhaps to inspire its cast to do better next time.

On either side of Balanchine and Bizet were ranged Ashley Page with his realisation of John Adams' *Fearful Symmetries* – a mechanistic score that traps Page's movement in its cogs – and William Forsythe with his favoured musical thuggery from Thom Willems in *Herman Schmerman*, replacement for the lost Michael Clark creation. The contrast is disquieting. The Royal Ballet looks o'erparted by Balanchine, yet at ease in the physical blare, the deformations, of Page and Forsythe. In a season when the company has shown itself incapable of dancing its ancestral treasure *Symphonic Variations* – a performance last week was crude enough to make angels weep – it is no praise to say that the Page and Forsythe pieces were well done.

Forsythe's knock-about classicism was made bearable on Thursday by the presence of Sylvie Guillem and Adam Cooper in the second-half duet. The dance slithers through their bodies, twisting and forcing them into aggressive, competitive behaviour. Mlle Guillem dances perfectly, with an insouciant bravura and exactness in shaping wild curlicues of movement. Cooper everywhere matches and challenges her. *The duet is vulgar, redeemed by its* performers' no-surrender passion, but it is deleterious stuff, because anarchic about classicism.

Fearful Symmetries is a case of activity leading to further activity, with little of it purposeful. Dancers rampage, rush, look busy. Anthony McDonald's scenery has an exasperating vivacity, forever playing oh-such-clever tricks by changing colour, or manifesting acrid-toned shapes, or erupting with neon lighting. It is hyper-active, and a bore, and adds to the febrile air of the piece. Irek Mukhamedov roars with a tremendous combination of speed and dense muscular power over the stage. What he does is amazing, and oddly pointless. The rest of the cast knock themselves out in Page's garrulities, though there are hints of drama half-glimpsed in the penumbra of the set. But the piece is caught in John Adams's unrelenting musical wheels, and is dragged too far before it can call a halt.

At Covent Garden on December 6, 7, 10, 14.

Bad behaviour? Moi?

Sandra Bernhard on the South Bank

Halfway through Sandra Bernhard's performance at the Royal Festival *Hall she reads out a letter* from a fan who has renounced her devotion: she had been to a Bernhard concert, where, instead of watching her idol lead the attack of the Lesbian Front against the barricades of straight society, she was forced to endure Bernhard's singing. The disillusioned dyke bewailed the fact that the most starry icon of her tribe was a performer first and an activist only in the dreams of her admirers.

My letter to Bernhard would be equally bigoted – stick to singing and cut the reveries. They are too predictably camp, sending up with phoney *enthusiasm such sitting* ducks as the intellectual powers of supermodels and the fantasy of true romance. Sing, Bernhard, sing Bernhard, sing.

Sandy B, as she tags herself, cannot fail to impress. Over six feet tall, she has the face of Mick Jagger and the dress sense of a nymphomaniac. No wonder her slowly remorseless version of "Sympathy For The Devil" brings Lucifer into the auditorium more potently than the Rolling Stones original.

Sandra Bernhard must be one of the last people you would dare to follow down a dark alley. With a suitably cowed and passive band *she presents a unique act; there is* no British equivalent of a singer who spends most of her act swearing at the audience, chasing hares, and subverting society – all done in the seductive voice of a siren. There is little quality control and Bernhard's own songs are beacons of self-indulgence, but she cleverly repackages familiar material. Using "Stairway To Heaven" as an intro to "Fifty Ways To Leave Your Lover" is a particular delight.

Anyone so belligerently materialistic has problems making a crowd love her, but the audience was determined to enjoy this oh-so-modern phenomenon, the woman famous for being famous. She comes across as too idiosyncratic for her own good – but possesses a voice that will keep many more tedious performers in clover.

Sandra Bernhard's current show is billed as "excuses for bad behaviour": the excuses being, "me, me, me." It is fun to watch such a stylish egomaniac at a safe distance for a short time, but must be a burden to have to live with such trendiness.

A.T.

INTERNATIONAL ARTS GUIDE

■ PARIS

GALLERIES
Grand Palais Tel: (1) 44 13 17 17
● Gustave Caillebotte: retrospective of the painter and patron of art who belonged to the circle of *impressionists; to Jan 9*
Instut du Monde Arabe Tel: (1) 40 51 38 38
● Delacroix in Morocco: Delacroix's visit in 1832, when he was 34; made a lasting impression on his art; to Jan 15 (Not Mon)
Musée d'Art Moderne, Ville de Paris Tel: (1) 47 23 61 27
● André Derain: 350 works spanning his entire career; to Mar 19 (Not Mon)
Musée Du Petit Palais Tel: (1) 42 65 12 73
● From Bhagdad to Isphahan: 70 Islamic manuscripts evoking the ancient civilisation of central Asia; to Jan 15 (Not Mon)
OPERA/BALLET
Champs Elysées Tel: (1) 47 23 37 21/47 20 08 24
● Kitege: by Rimsky-Korsakov. Director Valery Gergiev *at 7.30 pm;* Dec 10, 11
● *Sadko: by Rimsky-Korsakov.* Musical director Valery Gergiev at 7.30 pm; Dec 6, 7, 9
Opéra National de Paris, Bastille Tel: (1) 47 42 57 50
● Le Lac des Cygnes: by *Tchaikovsky. Choreographed and* produced by Rudolf Noureev. Conducted by Vello Pähn/Ermanno Florio at 7.30 pm; from Dec 9 to Dec 31 (Not Sun)

■ BERLIN

CONCERTS
Berlin Philharmonic
● Berlin Philharmonic Orchestra: with pianist Ewa Kupiec play Beethoven, Schumann, Britten and Stravinsky at 8 pm; Dec 6, 8, 9, 10
OPERA/BALLET
Staatsoper Unter den Linden Tel: (030) 2 00 4762
● *La Traviata:* by Verdi. Conducted by Rizzi, production by Kirst. In Italian at 7 pm; Dec 11 (6 pm)

■ TURIN

OPERA/BALLET
Teatro Regio Tel: 011 8815 241
● Lo Schiaccianoci: ballet in three parts by Tchaikovsky. Performed by the Kirov company, St Petersburg. Sun mat only at 3 pm; from Dec 10 to Dec 18 (Not Mon)

■ AMSTERDAM

CONCERTS
Het Concertgebouw Tel: *(020) 671 8345*
● Moscow Philharmonic Orchestra: conducted by Vassili Sinaiski play Beethoven and Mussorgsky at 8.15 pm; Dec 6
● Nikolaus Harnoncourt: conducts *the Royal Concertgebouw Orchestra* to play Schumann and Bruckner at 8.15 pm; Dec 7, 8, 9

■ LONDON

CONCERTS
Barbican Tel: (071) 638 8891
● András Schiff: pianist plays Bach, Bartok and Beethoven as part of the Barbican Celebrity Recitals Series at 4 pm; Dec 11
● The Dream of Gerontius: by Elgar. The London Symphony Orchestra with mezzo-soprano Anne Sofie Von Otter conducted by Sir Colin Davis at 7.30 pm; Dec 11
Festival Hall Tel: (071) 928 8800
● Beethoven Series: Philharmonia Orchestra conducted by Nikolaus Harnoncourt. Symphony No 8 and 6 (Pastoral) at 7.30 pm; Dec 10
● Choral Classic Series: *Royal* Philharmonic Orchestra with soloists Judith Howarth (soprano), Ruby Philogene (contralto), Ian Bostridge (tenor) and David Wilson-Johnson (bass) perform Handel's, 'The *Messiah' at 7.30 pm; Dec 9*
● Philharmonia Orchestra: with conductor Charles Dutoit and pianist Peter Jablonski play Tchaikovsky (piano concerto No. 2) and Shostakovich (symphony No.5) at 7.30 pm; Dec 6, 8
● Russia Old and New: Royal Philharmonic Orchestra with the Brighton Festival Chorus, London Choral Society and conductor *Vladimir Ashkenazy perform* Schnittke, Prokofiev and Rachmaninov at 7.30 pm; Dec 5
● The London Philharmonic: conducted by Bernard Haitink, with soloists Karita Mattila (soprano), Ann-Murry (mezzo-soprano), Keith *Lewis (tenor), Robert Lloyd (bass)* and the London Philharmonic Choir perform Beethoven Symphonies Nos. 1 and 9 (Choral) at 7.30 pm; Dec 11
GALLERIES
Royal Academy Tel:(071) 439 7438
● The Glory of Venice: a major survey of Venetian art in the 18th century; to Dec 14
Victoria and Albert Tel: (071) 938 8500
● Kalighat: Indian popular painting 1800-1930. Rural folk art of Bengal; to Jan 15
OPERA/BALLET
English National Opera Tel: (071) 632 8300
● Ariadne on Naxos: by Strauss. A Graham Vick production at 7.30 pm; Dec 8
● Figaro's Wedding: in house debut for conductor Derrick Inouye at 7 pm; Dec 10
● Khovanshchina: new production of Mussorgsky's opera. Director Francesca Zambello at 6.30 pm; Dec 6, 9
Royal Opera House Tel: 071 240 *1200*
● Ashton Remembered: celebration of founder choreographer Fredrick Ashton. Includes pieces by Mendelssohn, Offenbach, Massenet and Walton at 7.30 pm; Dec 9
● La Traviata: by Verdi. A new production by Richard Eyre. Georg Solti conducts for the first five performances, then Phillipe Auguin. In Italian with English surtitles at *7.30 pm; Dec 5, 8*
● Mixed Programme: includes Fearful Symmetries choreographed by Ashley Page, and Symphony in C by Bizet, choreographed by George Balanchine at 7.30 pm; Dec 6, 7, 10 (2 pm)
THEATRE
Palladium Tel: (071) 494 5020
● Oliver: produced by Cameron Macintosh, directed by Sam Mendes. Cast includes Jonathan Pryce, Sally Dexter and Miles Anderson at 7.30 pm; (Not Sun)
Strand Theatre Tel: (071) 930 8800
● The Prime of Miss Jean Brodie: by Muriel Spark, adapted by Jay Presson Allen, directed Alan Strachan. Miss B. played by Patricia Hodge at 7.45 pm; to Feb 25 (Not Sun)

■ NEW YORK

GALLERIES
Brooklyn Museum Tel: (718) 638 5000
● Indian Minature Paintings: 80 jewel-like paintings from the 15th -19th century; to Jan 8 (Not Mon)
Metropolitan
● Early Renaissance Florence: 100 panel paintings and manuscript illuminations by masters of the Gothic style; to Feb 26 (Not Mon)
● Origins of Impressionism: 175 *paintings by Parisian artists of the* 1860's; to Jan 8 (Not Mon)
● Thomas Eakins: exhibition honoring the 150th anniversary of the birth of th artist. This installation of about 30 works from the museums holdings explores the museums continuing interest in Eakins; to Feb 26
● William de Kooning's Paintings; to Jan 8 (Not Mon)
OPERA/BALLET
Metropolitan Tel: (212) 362 6000
● Don Giovanni: by Mozart, sung in Italian at 8 pm; Dec 6, 10
● Lady Macbeth of Mtsensk: by Shostakovich at 8 pm; Dec 7, 10
● Madama Butterfly: by *Puccini at 8 pm; Dec 5, 8*
● Rigoletto: Italian opera by Verdi at 8 pm; Dec 9
THEATRE
Manhattan Theatre Club Tel: (212) 581 1212
● *Love! Valour! Compassion!: latest* play by Terence McNally (of Kiss of the Spiderwoman fame), directed by Joe Mantello. Sun. performance at 7pm otherwise at 8 pm; to Jan 1 (Not Mon)
Plymouth Theatre Tel: (212) 239 6200
● Passion: music and lyrics by Stephen Sondheim. Winner of four Tony awards at 8 pm; (Not Sun)

■ WASHINGTON

CONCERTS
Kennedy Centre Tel: (202) 467 4600
● An Evening of Opera and Chamber Music: Selections from a new opera and chamber music by Soong Fu Yuan. With soprano Yan Yan Wang, tenor Robert Brubaker, bass Don Yule, the Camerata *Quartet and conductor Fy Soong* at 7.30 pm; Dec 11
● National Symphony Orchestra: conducted by Eiji Oue play Mahler and Tchaikovsky at 8.30 pm; Dec 6 (7 pm)
GALLERIES
Sackler Tel: (202) 357 2700
● Landscape as Culture: Lois Conner travels through Asia recording architecture and *landscapes with her 100 year old* banquet camera; to May 30
THEATRE
Arena Stage Kreeger Theater Tel: (202) 554 9066
● Misalliance: by Bernard Shaw, directed by Kyle Donnelly; to Jan 8

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SUNDAY
NBC/Super Channel: FT Reports 2230
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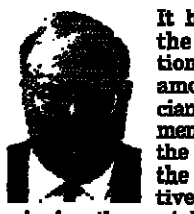
Samuel Brittan

No need to bribe British voters



It has become the conventional wisdom among politicians and commentators that the only hope the Conservatives have of winning the next UK election (due not later than the spring of 1997) is by extensive cuts in income tax. I have not the faintest idea who will win that election; but the view that the crucial factor is income tax cuts is fatally flawed.

The reasoning – to dignify it by that name – runs as follows. An unexpectedly sharp economic recovery has neither produced a feeling of well-being nor improved the very low ratings of the Conservatives in the opinion polls. So a further bribe by way of income tax cuts is required.

Elections, of course, are not determined by economic circumstances alone. Otherwise Margaret Thatcher's second election victory in 1983 and John Major's victory in 1992 are inexplicable. The Thatcher victory of 1983 was achieved at a much earlier stage of economic recovery than has now been reached in late 1994. The evidence suggests that the "Falklands factor", which emerged after the defeat of Argentina in those southern islands in 1982, was decisive.

Admittedly the third Thatcher victory in 1987 is more convincingly attributed to feelings of economic well-being. But the Conservative victory under John Major in 1992 remains more puzzling. The prime minister won at the bottom of a recession when unemployment was again sharply rising and the poll tax debacle a recent memory. There was no overall rise in living standards in 1991, the year before that election. The most likely explanation is that voters were persuaded that there had already been a change of government when Major succeeded Thatcher in late 1990 and wanted to give the new prime minister a chance.

Obviously economic well-being has a large part to play, when there are no special countervailing factors. The reason the present upturn has failed to produce such a feeling is not far to seek. The best single measure of living standards is real personal disposable income after tax. The average increase in this measure since 1970 has been 2.7 per cent per annum. But in 1994 it has actually fallen by up to 1 per cent. Take-home pay has been squeezed by the delayed tax increases announced in the two budgets of 1993, introduced when the scare about a supposed £50bn budget deficit was at its height.

UK real personal disposable income

	% increase per annum
Average annual increase 1970-93	2.7
1987*	3.4
1988*	6.0
1989	4.9
1990	1.9
1991	0.1
1992*	2.7
1993	1.9
1994†	-0.9
1995†	0-1½
1996†	2.3
1997†	2.3

*Election year; † Treasury and London Business School forecasts. Source: CSO

The sources of the present recovery have been net exports, investment and consumer spending. The latter has been financed from a lower savings ratio rather than higher take-home pay. Such an increase does not make households feel as good as higher consumption financed from growing incomes.

But the dawn can already be seen. The last of the staggered tax increases will be levied in 1995. The way is then open for real incomes to rise roughly in line with pay, adjusted for inflation. The Budget Red Book does not forecast real personal disposable income in its tables. But there is a verbal reference to disposable incomes rising by 1¼ per cent in 1995, despite the residual tax increases, This is also the view of the National Institute of Economic and Social Research – although the London Business School foresees another year of the zero growth in that measure, with recovery beginning in 1996. Even the LBS sees this variable rising by 2.3 per cent – near the long-run average – in both 1996 and 1997.

Of course these projections are fallible. But the underlying trend is for a return to normal growth of post-tax real living standards. And if the mainstream projections underestimate future economic growth, as they probably do, the rise in take-home pay will be larger still. Thus people will be able to increase consumption without running down the savings ratio any further. Moreover, as recovery continues and job totals rise, there should be more confidence in employment prospects, despite continuing reports of dismissals by particular firms.

Any feasible "tax cuts" will be only a fraction of the tax increases imposed earlier in this parliament. They will also be a drop in the ocean in their effect on living standards; and if tax cuts threaten the improvement in the public finances, even the ordinary voter who does not follow the financial markets will still pick up the confidence tremors; and Labour will be able to go to town on fears about the sustainability of recovery.

Moreover, all the political gossip has concentrated on income tax, which is now a relatively minor tax accounting for 25 per cent of general government receipts. Once the correction in the public finances has been made, there could be a modest adjustment in income tax bands in an average year to offset the way in which people creep up into higher tax brackets as real incomes rise. But unless or until there is a change in the structure of public services which voters demand of government, the great bulk of the increase in living standards will have to come from pay in the marketplace. Nor is there reason to think a once-for-all obvious pre-election tax bribe will work. To adapt English humorist Hilaire Belloc: there is no need to bribe the English voters considering what he or she will vote for unbribed.

Feisty fighter for a level playing field

Emma Tucker on the policy of Karel Van Miert, the EU's reappointed competition commissioner

Of the European Union's 20 commissioners, Karel Van Miert, the feisty Flemish politician responsible for competition policy, is one who frequently takes it upon himself to tell the world what Brussels is up to.

Only last week, he triumphantly announced record fines on a price-fixing cartel for the third time in a year. The cement industry was his latest target, but whether fighting collusion, blocking a merger, or approving a state bail-out, his are controversial decisions.

The former socialist MP has been reappointed as competition commissioner, for a further five years from January. But after his first two years, industry is asking whether Mr Van Miert is the right man to ensure fair play.

When Mr Van Miert took over the competition dossier from self-styled crusader Sir Leon Brittan, many expected his socialist vision to herald a less rigorous approach.

Some of these early critics have revised their views. "People have a very positive view of Mr Van Miert," says Ms Bernadine Adkins, a Brussels-based competition lawyer. "They think he has been very robust and has pursued Sir Leon Brittan's line."

Mr Van Miert has aggressively tackled Europe's highly regulated telecoms sector and reorganised the Commission's merger task force to achieve speedier decisions.

But aggrieved groups remain, among them private steel makers struggling to compete without subsidies and consumers still faced with inflated European airfares.

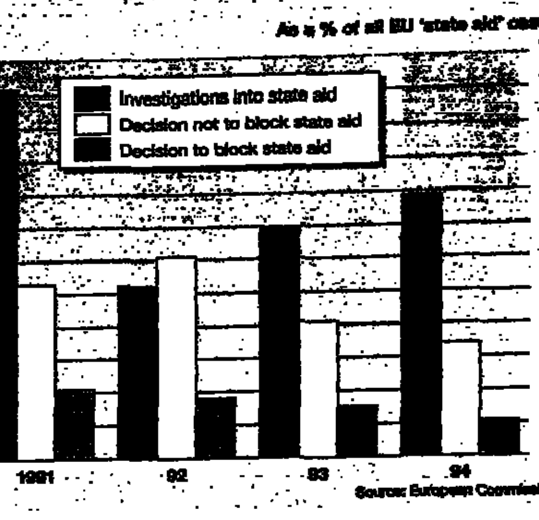
Mr Zygmunt Tyszkiewicz, secretary general of Unice, the federation of European industry, wrote earlier this month: "The essential corollary of competitiveness – a strict competition policy – is being applied without the necessary rigour and determination."

Criticism of Mr Van Miert's "pragmatic" approach has been most strident in relation to several vast, and highly political state aid payments, and the collapse of a joint industry-Commission steel rescue plan – which cut little capacity but distributed subsidies.

In these cases political considerations took precedence over a strict application of competition rules. One example was the decision not to prevent the French government from paying FFr20bn (£2.4bn) to its bankrupt national carrier, Air France – a capital injection almost equivalent to

European Union: competition and state aid

Karel Van Miert, EU competition commissioner



Source: European Commission

world airlines' entire losses last year, according to Sir Michael Bishop, chairman of British Midland.

In Northern Ireland, the Commission decided not to block a vast subsidy to Hualon, a Taiwanese textiles plant, which competitors said would add to capacity and threaten jobs in an over-supplied sector.

"State aids continue to be authorised too easily by the Commission. ... to the detriment of just those companies that have undergone the painful process of restructuring," wrote Mr Tyszkiewicz.

Mr Van Miert does not bear sole responsibility for this. Each case goes to the college of commissioners and airline cases are handled by the transport commissioner. In cases such as Air France and Hualon, say his supporters, it would be naive to think that Mr Van Miert could have acted against pressure from two of the EU's bigger member states.

There are also those who argue that a strict application of state aid rules would be inappropriate while unemployment in Europe remains high.

"Mr Van Miert's idea of pragmatic competition is a little bit socialist and *dirigiste*, but it is also in line with the times," says Mr John Ratliffe, a Brussels-based competition lawyer. "You can imagine the consequences on some parts of Europe if he just waded in and threw people out of jobs."

But, says Mr Graham Mason of the *Confederation* of British Industry: "Pragmatism might have been the order of the day during the recession, but when things get better it should most definitely not be."

Criticism of his approach has been most strident in relation to state aid payments

It could even damage the internal market, as member states try to sustain industrial capacity at unrealistic levels, rather than create the conditions for businesses to adjust to competitive pressures.

A pragmatic approach has also allowed the persistence of contradictions within state aids policy.

Decisions are affected by "a combination of sectoral and horizontal frameworks which lead to different treatments for different industries without any real justification," said a competition official.

In the case of Hualon, it was the application of regional development criteria that allowed Mr Van Miert to bend competition rules to allow the subsidies to be paid.

A particular cause of complaint are industry agreements covering sectors such as textiles and cars introduced originally for economic or structural reasons. "These are the result of special situations but they seem to be kept for ever," said a Commission official.

Another big criticism of competition policy is of the procedures used by directorate general 4, the Commission's competition unit.

The investigation into the cement cartel, for example, took five years to complete. The time taken to investigate cartels, and the legal uncertainty created, upsets reasonable commercial timetables for taking investment decisions, argues industry.

The Commission has committed itself to investigating cases more quickly. However, swifter processing of cases can involve a trade-off with legal certainty. For example, where companies are planning agreements which may distort competition, the Commission has taken to issuing so-called "comfort letters", informal statements to the interested parties of its view on whether or not the agreement is likely to be judged anti-competitive.

The good thing about comfort letters is that they can be issued quickly. However, they do not bind the Commission to a final decision, they provide no immunity from fines should the agreement be challenged, and they are not binding on national courts.

Mr Van Miert has also been looking at ways of reducing the case load on DG4 officials by devolving some responsibility to national courts. But the problem with such an approach is that the efficiency of competition authorities differs considerably between member states and there is a danger that the law will be applied unevenly.

But while Mr Van Miert's plans for procedural changes have been well-received by industry, it is on high-profile state aid cases that his record will be judged.

Mr Van Miert has stressed many times that he does not intend to allow any further payments to companies that have already benefited from state subsidies. But a battle is looming. Last month he disagreed in public with the outgoing Spanish transport commissioner over whether second payments should be allowed in exceptional circumstances. Mr Marcelino Oreja had said that state bail-outs could be justified under such circumstances as a currency devaluation.

This is precisely the case that Iberia, the Spanish national carrier, is expected to make when it asks the Commission for approval of a second tranche of capital.

For the sake of the Commission's credibility Mr Van Miert is likely to argue that a one-time, last-time payment means what it says and not – as Commission officials joke – one-time, until the next time.

But the stakes are high. The blocking of a capital injection to Iberia could provide the Commission with the best proof yet that it is taking its competition duties seriously; for the first time since Europe's skies were supposedly liberalised, a state-owned, national flag carrier might go bankrupt and close down.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Potential to challenge Revenue

From Mr Timothy Lyons.

Sir, The Germans "face higher UK tax charges on the earnings of their British subsidiaries" following Budget tax changes ("Japanese and Germans face higher charges", November 30).

It is ironic that they should do so by virtue of provisions intended, according to the Inland Revenue press release of November 29, to "remove any uncertainty" over existing rules, following the European Court of Justice's decision that certain Dutch tax provisions gave rise to illegal discrimination – see *Halliburton Services BV* (Case C-1/93).

Whether the proposed provisions are as non-discriminatory as they first appear may be questionable. Of more general significance is the fact that the UK Inland Revenue is now openly taking account of EC law in formulating proposals for new corporation tax legislation.

Company tax advisers, for their part, ought to be just as interested in applying the EC Treaty to tax laws already in force. Many significant provisions, including those relating to loss-relief for groups of companies, appear open to challenge in the right circumstances.

Timothy Lyons,
24 Old Buildings,
Lincoln's Inn,
London WC2A 3UJ

Petty broadcasting restriction

From Mr Andrew Stuttaford.

Sir, France's culture minister, Jacques Toubon (The FT Interview, November 29), claims to have heard that "British delegates" in Brussels are now "more conciliatory" towards proposed EU plans further to restrict the amount of non-EU material that can be shown on European broadcast media. One can only hope that he is wrong.

In the past such a policy could, perhaps, seek some remote justification in the limited broadcasting capacity then available.

Fortunately, with today's technology such an excuse can no longer stand. The proposed legislation can now be seen for the petty anti-Americanism that it really is. National quotas no more belong in the TV schedule than they do in the book shop.

In defending this policy, Jacques Toubon may well find comfort in France's authoritarian traditions. The "British delegates", however, would have no such excuse and no reason to be "conciliatory". The free flow of ideas should not be negotiable and the sooner this is explained to the European Commission the better.

Andrew Stuttaford,
280 Park Avenue South,
New York, NY 10010,
US

Feeder-reliever airports supported

From Mr Keith Boyfield.

Sir, Mr D R Hopkins, chairman of the British Air Transport Association, has clearly not read my report, *Plane Commonsense*, published by the Adam Smith Institute (Letters, November 28). Otherwise he would not have made so may elementary errors in writing about my study which puts the case for developing Northolt and Redhill as feeder-reliever airports.

For instance, Mr Hopkins appears to be under the misapprehension that feeder-reliever airports could only handle business aviation, but my recommendations envisage feeder-reliever airports accommodating aircraft handling up to 120 passengers at Redhill and up to 160 passengers at Northolt.

My proposals hinge on the observation that there is no realistic possibility of constructing additional full-scale runways at either Heathrow or Gatwick. The political opposition to such a move is just too great. I agree with Mr Hopkins when he points out that "new capacity must be provided where it will expand and complement existing facilities along the Heathrow-Gatwick axis". This is precisely what Northolt and Redhill offer.

As I stress in my report, these two feeder-relievers could also accommodate many of the aircraft serving regional cities as well as restoring service to airports such as Liverpool and Humberside. Indeed, it is estimated that more than 25 per cent of the aircraft currently using Gatwick, but carrying a mere 5 per cent of passengers, could transfer to Redhill. In peak times, the percentage rises to 33 per cent, thus freeing a substantial number of precious slots at Gatwick's single runway.

Mr Hopkins is also badly informed when he asserts that the airline industry is not fully supportive of this bold initiative.

TWA, American Airlines, Manx and the European Regional Airlines Association are just a few of the airlines and industry groups that have indicated their support for the concept of feeder-reliever airports such as the ones I envisage at Northolt and Redhill. This is in stark contrast to the development of Stansted where only one carrier supported the BAA's proposals and British Airways appeared as an objector.

Finally, the sale of RAF Northolt, coupled with the leaseback of an improved VIP terminal, would enhance rather than detract from the facilities available for the Queen's Flight and ministerial flights.

Keith Boyfield,
No 1 Wardrobe Place,
London EC4V 5AH

No place for mutuality in Halifax and Leeds building societies

From Mr Trevor Harvey.

Sir, David Miles is wrong on at least two counts when he refers (Letters, November 30) to the obligations building societies have to their members. First, building societies do not repurchase depositors claims – they give members their own money back. Mr Miles's implication that there is some similarity with companies not being obliged to repurchase their equity is misplaced.

Second, Mr Miles thinks that building societies have an absolute obligation to give members their money back, when members want it. Power over when, or even if, a building society gives members their money back lies, I am afraid, with the society. Tucked away in the rules of every society are words which say that the board has the power to suspend or limit the payment of withdrawals when, at its discretion, it considers it necessary. Societies may use such power rarely, but they do have it.

The real reasons why the Halifax has chosen to convert is simple – a mutual form of corporate governance for an organisation of its size and complexity involving 8m members simply does not work any more. Members of neither the Halifax nor the Leeds have in the past nominated, voted, attended or even appointed proxies in any significant numbers. The operation of a credible form of mutual corporate governance has to be based upon member involvement and participation. And among the UK's building societies it just does not happen. The fleeting exception might be when Halifax and Leeds members are asked to support the merger and subsequent conversion. The only real question at that point will be just how large the inducement will have to be to get them to do even that.

And if Mr Miles wants to know what effect the operation of financial markets will have on the Halifax directors' behaviour when it becomes equity based, all he has to do is ask Mr Mike Blackburn, the Halifax's chief executive, how much he already cares about the rating that Standard and Poor awards the Halifax currently.

Whatever the strength of the strategic reasons for this merger might be, one has to applaud the Halifax board for wanting to free itself from the hypocrisy of a mutual constitution that is only being maintained by the most basic of life support systems. The kindest course of action for the Halifax is to pull the plug through conversion to end this particular form of corporate diversion.

Trevor Harvey,
director of resources,
Ashridge Management College,
Berkhamsted, Herts HP4 1NS

صكرا من الاجل

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: 071-873 3000 Telex: 922186 Fax: 071-407 5700

Monday December 5 1994

Electricity grid-lock

After five years, talks on liberalising European electricity have made little progress. The European Commission is battling to win a compromise from governments which are determined to protect their energy industries. But it now risks surrendering its original goals.

One of the main aims is to bring European electricity prices in line with costs. The present wide variations in prices between member countries are not well explained by differences in costs, and distort competition within energy-intensive industries. Liberalisation would combat those distortions. An integrated European grid would also use capacity more efficiently in servicing peak demand.

Industrialists are right to argue that such changes would bring cheaper electricity to many countries. But the industry poses tough problems for competition policy, partly because of its economics, with high fixed costs and low short-run marginal costs – in the case of nuclear power, these being close to zero. Moreover, governments understandably worry about security of national supply.

Talks have stalled over the Commission's proposal to allow power companies access to national transmission systems, so-called "third-party access". One concern has been "cream-skimming". Many national utilities cross-subsidise unprofitable customers, whom they are obliged to supply under public service obligations, with revenues from lucrative customers. Under third-party access, such public service costs would need to be identified and shared among network users.

Another concern is that countries with excess capacity would "dump" cheap electricity. Belgium and Luxembourg, in particular, worry that Electricité de France could undermine their energy industries by selling nuclear power at close to short-run marginal cost. They would be wrong to turn down cheap electricity simply to protect national industries. But they have a legitimate worry about predatory pricing: if their industries disappeared, prices of imports might rise to reflect the full costs of nuclear power.

Such concerns are best answered by the provision of information about costs, and by a degree of regulation. Scepticism that countries would give a regulator the necessary information may be justified. Yet without regulation, access is unlikely to deliver the hoped for benefits, because this will not be a freely competitive market. One reason is the presence of so many public enterprises. A more specific one is the large nuclear component which markets, unassisted by governments, are loath to support.

The current stalemate may not end, since access will produce both winners and losers in the short term, even if liberalisation is in every country's long-term interest. But the Commission should resist the recent French proposal for a "single buyer" of electricity in each country. The scheme is unlikely to give even large customers a choice of supplier, or to offer national generators real competition.

If talks do not progress, the Commission could take more governments to court for breaching the Treaty of Rome's provisions on free movement of goods. But this tool is, claims the Commission, limited in its effectiveness: it tackles only questions of imports and exports, not of distribution and transport. If that route were to fail, the Commission could press for an energy chapter in the 1996 inter-governmental review of the Maastricht treaty. No route is easy, but the Commission must at least hold to the principle of third-party access, which is essential to introducing competition.

Aid for Ukraine

Time to compromise: European Union finance ministers look set to spend today's Ecofin meeting in Brussels squabbling over whether to lend Ecu85m (£67m) to Ukraine, Ecu65m of which the country will immediately pay back to meet an earlier debt. Germany is pressing hard for the deal, believing that it provides the EU with a cheap opportunity to do considerable good. France and the UK fear that the deal would set a dangerous precedent for the future. But letting the Ukraine's reform efforts stumble over such a paltry sum would be more dangerous still.

Ukraine's president, Mr Leonid Kuchma, has taken the country a long way in recent months. Private land ownership has been legalised; agricultural and energy prices have been brought close to world levels; and the budget deficit is at last, slowly, being brought under control. Recognising these and other achievements, the International Monetary Fund is negotiating a $1.5bn (£910m) stand-by loan to support Mr Kuchma's efforts. As ever, the cloud hanging over Ukraine's brighter economic future is the trade account.

Ukraine needs to find a way to fill the looming $1bn gap in its balance of payments for the fourth quarter of this year. The IMF has pledged to provide around one third of this figure, while the US, Canada and the Netherlands have offered around $100m between them. A show of support from the EU would unlock further funds from the US and other G7 countries, and a much-needed debt rescheduling agreement from Russia, Ukraine's chief energy supplier and creditor.

The British and French governments oppose the deal on the grounds that the EU is not in the business of making balance of payments loans to distressed countries. Only one country – Moldova – has been granted similar support in recent years. And the Moldovans, at least, had already reached a formal deal with the IMF, and were therefore locked into a full-scale macroeconomic reform programme.

Russia ought not to be in the balance of payments financing business either. Yet, as Ukraine's largest energy supplier, it has provided more than $5bn in import financing over the past two and a half years, mostly in the form of unpaid bills. The Russian government has accepted that its help will continue to be needed for a while yet. But it understandably balks at the prospect of continuing a task which the EU values at less than Ecu20m. A gesture is needed. The ministers could pledge the money now, on condition that it is disbursed only when Ukraine's IMF facility is formally in place. But pledge they must.

After the round

The US Senate's approval of the Uruguay Round has removed a great uncertainty overhanging the future of the world trade system. The trade deal's passage through Congress guarantees that it will go ahead, and that the World Trade Organisation will be set up as planned. Now that the foundations of the new order have been secured, work on its construction must get under way in earnest.

The first priority is for other Gatt members, many of which have held back from ratifying the round until Congress voted, also to complete the process. The EU bears a particularly heavy responsibility, since any slippage on its part could delay implementation of the round. But it is desirable that as many other countries as possible also be ready to participate in the WTO from the outset.

The second priority is to appoint a leader for the organisation. Gatt members are due this week to try to choose between three contenders: Mr Carlos Salinas, Mexico's former president; Mr Renato Ruggiero, a former Italian trade minister; and Mr Kim Chul-su, South Korea's trade minister. However, regional and political rivalries risk producing a stalemate.

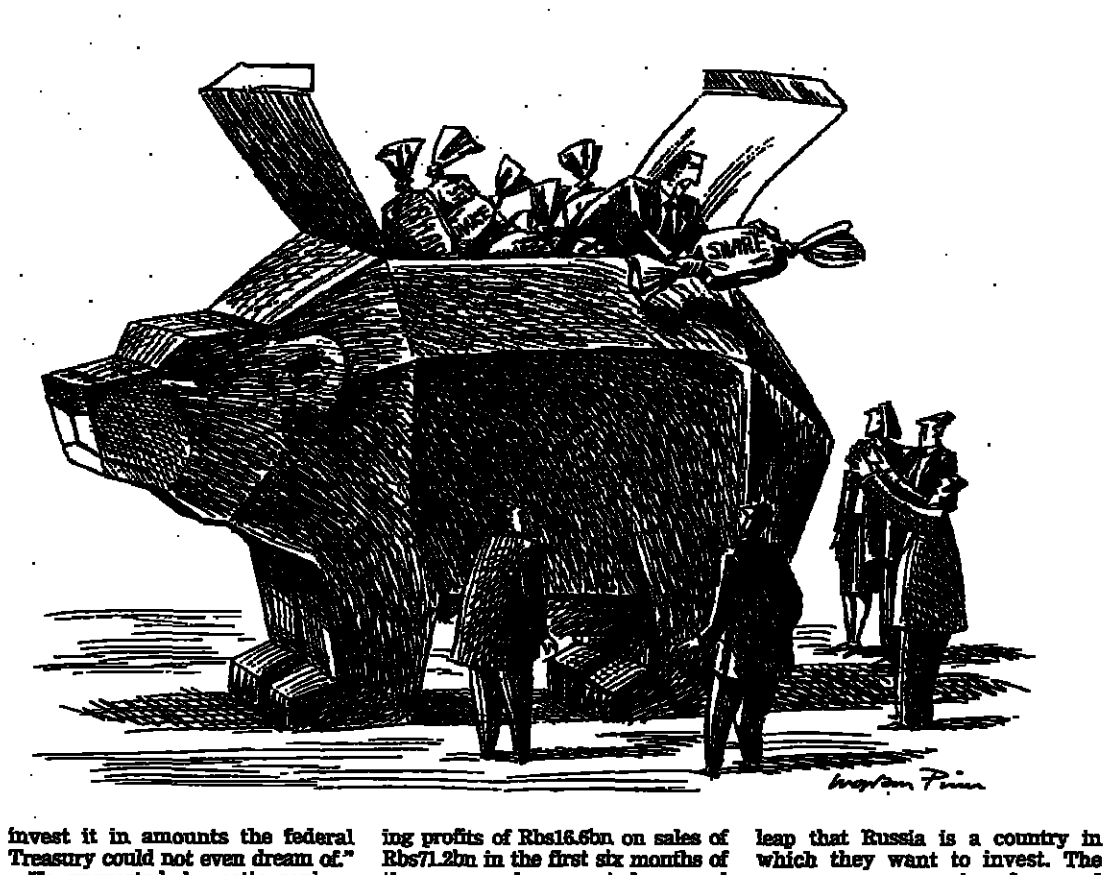
That threat must be averted if the WTO is to fulfil the ambitious mandate given it by governments. The organisation's success depends crucially on strong and clear-sighted leadership, particularly in its early years. Failure to agree quickly on a candidate could leave it directionless. At least as damaging would be a repeat of the recent compromise over the top job at the Organisation for Economic Co-operation and Development, where Mr Jean-Claude Paye will continue as a caretaker for a further two years.

The third pressing task is to conclude negotiations on China's WTO entry. China's effective integration into the multilateral trading system is vital to the future of the world economy. However, progress in the talks has been hampered by obduracy in both Washington and Beijing. The former continues to insist, unreasonably, that China join the WTO as a developed country. However, the latter still seems to be balking at the basic obligations of Gatt membership and the constraints they impose on policy.

Congressional approval of the Uruguay Round should allow the Clinton administration more scope for flexibility on this issue. However, Beijing must also provide more convincing evidence that it is genuinely committed to respecting international rules. If the gap cannot be narrowed soon by the two governments' trade negotiators, their leaders may need to intervene directly in an effort to reach a political settlement.

The Russian government aims to make investing in private companies more attractive, says **John Thornhill**

Temptations held out to shareholders



It is an irony that a confectionery company named in honour of the Great October Socialist Revolution of 1917 promises to open a new chapter in Russia's capitalist development. But the public share issue that the Red October enterprise launches today may have a significance far beyond whether the Moscow company receives Rbs70bn ($22m) to upgrade its production lines for its Clumsy Bear chocolates and Lobster Tail sweets.

The broader purpose of the issue is to construct a model for raising finance that can readily be copied by other companies. If successful, it could show Russian companies how they might access untapped pools of domestic and international capital to fund their investment needs.

The architects of the issue, which include the UK government's Know-How fund and a small army of Russian and foreign advisers, also aim to strengthen the local stock market infrastructure. By linking brokers and financial institutions through this issue, and encouraging the public to invest in productive enterprises rather than speculative ventures such as the MMM pyramid scheme, the project can help to broaden the shareholder culture. The Know-How fund is paying for nine companies in five Russian cities to follow Red October's path.

"This issue is about more than whether one small confectionery company can raise some money. It is about how to point 14,000 cash-starved privatised companies towards available sources of capital," says one Moscow-based stockbroker.

One perverse by-product of Russia's vast and rapid privatisation programme has been to create a back-to-front capital market structure. Russia is perhaps unique in having created secondary markets, which sprang up to trade the shares of the newly privatised companies, before it developed primary markets where companies could issue shares to raise fresh funds.

The reformers in the Russian government are aware of this weakness and are intent on rectifying it. In an interview with the Financial Times last month, Mr Anatoly Chubais, recently promoted to first deputy prime minister after spearheading the privatisation programme, defined the government's two chief goals for next year as economic stabilisation and the development of effective securities markets.

Mr Chubais believes these processes must go hand in hand. If inflation is 15 per cent a month, nobody will invest – even in sound enterprises; but economic stabilisation cannot be achieved if Russian companies still have to rely on inflationary state credits. "Our citizens must be stimulated to buy shares in serious industrial enterprises," he said this week. "People do have money and are ready to invest it in amounts the federal Treasury could not even dream of."

He suggested domestic savings had increased this year from Rbs5,000bn in January to Rbs20,000bn by November. Teams of Russian and western experts are working feverishly to create the mechanisms and legal framework to enable this savings pool to be sucked into productive investments.

Red October is perhaps as good a place to start as anywhere. Founded in 1867 as Einem, after the German entrepreneur who created it, the renamed Red October subsequently grew into one of the best-known companies in Moscow. Its products have been popular with generations of Russians who have a penchant for sticky sweets.

Its highly visible site, occupying a famous red-brick complex on an island opposite the Kremlin, is a Moscow landmark. It is not hard to imagine the day when the site alone could be worth more than the company's nominal valuation.

Like all Russian companies, Red October has severe problems, but at least it is financially stable – making profits of Rbs16.6bn on sales of Rbs71.2bn in the first six months of the year – and appears to have good growth prospects. Despite being Russia's biggest confectionery company, Red October accounts for just 3 per cent of the national market. The big western groups, such as Mars, Cadbury Schweppes, Hershey's and Nestlé, are flooding the country with their products and may pose a serious long-term threat. But these multinationals claim to be expanding the market as a whole, rather than grabbing share from local manufacturers.

The share issue itself is divided into three tranches. Of the 3.5m shares on offer, 1.5m have been reserved for Russian institutional investors, such as banks and the nascent investment funds, which are expected to have a keen appetite. Another 1m shares have been allocated for international investors and will be marketed in London through James Capel, the stockbroker, where the extent of the interest remains to be seen.

Many western fund managers appear to have taken the conceptual leap that Russia is a country in which they want to invest. The progress on economic reform and the relative political stability of recent months, combined with the seemingly low valuations of Russian assets, have already attracted speculative funds. But mainstream investors remain deterred by the rudimentary nature of the market infrastructure and the lack of information on company performance.

One of the most impressive aspects of the Red October issue is how far it has gone to help dispel the latter concern by significantly raising the level of disclosure among Russian companies. A 48-page prospectus has been produced containing a wealth of financial information and summaries of the company's history and strategy.

Nevertheless, the document candidly highlights the high risk inherent in Red October as an investment proposition. The rudimentary accounts are heavily qualified by Deloitte and Touche, the auditor. It would be impossible to launch a fund-raising exercise in a developed stock market on the basis of the information provided.

Whether the issue is judged a success, however, will depend on the appetite of private retail investors in Russia for the remaining 1m shares. Other stockbrokers, which have tried to sell shares in solid Russian industrial companies, have failed to excite much interest, being drowned out by the noise of speculative funds which promise seemingly stratospheric returns.

Red October concedes its sales pitch is emotional as much as financial. Mr Anatoly Daursky, Red October's president, thinks many local investors will relish the opportunity to buy a "part of Russian heritage".

But there are critics of the Red October fund-raising who say such projects are too complicated and inappropriate for this stage of Russia's economic development. The expensive paraphernalia of a stock market fund raising demands too much management effort. Besides, why should Russian companies give away a big chunk of their equity when they are valued so cheaply?

"Is this a means by which the Russian equivalent of the Fortune 500 can raise capital? I do not think so," says one Moscow-based western financial expert. "It would be too much hassle to try to raise $1bn in packets of $10 shares."

Significantly perhaps, the giants of Russian industry, such as Gazprom, the vast gas concern, and Lukoil, the country's biggest privatised oil company, do not yet see Russia's equity markets as being sufficiently developed to raise money, and are aiming to raise capital in international markets. Both have already succeeded in raising multi-million dollar debt finance packages from German and Japanese banks secured on hard-currency export earnings.

Both companies are also seeking to raise money through international equity offerings. Gazprom will sell 9 per cent, probably through a private placing arranged by UK merchant bank Kleinwort Benson. Lukoil aims to sell up to 15 per cent of its equity abroad and obtain a listing on the New York Stock Exchange. It will be a tortuous process, but it has already taken on western auditors to prepare the necessary accounts and has hired lawyers and management consultants to reshape its business.

Whatever the balance between debt and equity finance, whether from domestic or foreign sources, it is clear Russian companies must find new capital from somewhere.

"If you believe in the economic transformation of Russia, then you have to believe that domestic savings will be channelled through intermediary institutions into fixed capital formation," says one Moscow-based financier. "What is clear is that if reform is to work, the government has simply got to get out of that business."

Signals herald growth, not inflation

PERSONAL VIEW

Is inflation about to take off in the UK? The broad picture of output levels suggests that it is. The most recent Confederation of British Industry quarterly survey revealed that 51 per cent of companies reported their current level of output as below capacity – compared with an historic average of 58 per cent. This trend is widely perceived as a sign of a resurgence of inflation – even though rising investment will partly alleviate the problem.

However, the aggregate numbers – even for manufacturing – disguise a widely varying picture at the sector level. Indeed, the main implication of the survey results on capacity utilisation is for relative profits growth in different manufacturing sectors. This means that fears of a resurgence in inflation are overstated.

It is clear that capacity shortages are heavily concentrated in basic industries at the early stages of the production process, such as chemicals and metal-manufacturing sectors. Only 23 per cent of chemicals sector respondents reported that they were working below capacity compared with an historic average of 51 per cent. Only 19 per cent of metal manufacturers were working below capacity compared with 46 per cent in January 1994. The percentage of metal manufacturers reporting that a shortage of plant and machinery is "likely to limit output over the next four months" has risen from 6 per cent in January 1994 to 64 per cent in October.

Not only is plant capacity utilisation much higher in basic industries than in the rest of manufacturing, it is much higher than at similar stages of previous cycles. This is not generally the case for the rest of manufacturing – those industries at the more intermediate stages of the production process.

In "engineering and allied sectors", which account for about 40 per cent of manufacturing output, 60 per cent of respondents still report they are working below capacity, in line with the historic average for this series.

The further along the production process we look and the closer we get to the final consumer, the more spare capacity there appears to be. In the last survey 83 per cent of drink and tobacco manufacturers reported they were working below capacity.

Manufacturers with spare capacity are being squeezed between suppliers and final markets

It is not surprising, therefore, that the price pressures which were evident in the last survey were heavily concentrated in the basic industries. A balance (the percentage of respondents replying "up" minus the percentage replying "down") of +55 per cent of metal manufacturers reported higher prices, compared with +9 per cent for the survey as a whole, even though their unit cost balance was −39 per cent, implying that margins are expanding rapidly in these sectors.

In the official producer output-price series, the highest rise over the past 12 months has been in the basic metals sector. In chemicals, a survey balance of +21 per cent reported higher prices in October 1994. In the engineering sectors, the price balance was −2 per cent and the cost balance +8 per cent, implying margins are being squeezed.

The picture that emerges is that because basic industries – at the early stages of the production chain – have much higher-than-average (and higher than is usual for this stage in the cycle) rates of capacity utilisation, they have greater price-setting ability than previously.

The more intermediate manufacturers, meanwhile, with much more spare capacity, are being squeezed between their suppliers and the still-competitive final markets, to which they are closer. This picture is consistent with that which emerged from the recent company-results season, resulting in quantum profit-upgrades for the likes of British Steel and ICI going hand-in-hand with downgrades for companies such as BTR.

Eventually the capacity and price pressures in the basic industries may get passed through the production process, but there is currently no sign from the survey that this will happen to any significant degree in the foreseeable future.

The main implication for the next one to two years continues to be for relative sectoral profits growth rather than macro inflation. Even then, rising producer prices will be partly absorbed by the highly competitive retail and distribution sectors, particularly if consumer demand weakens further in the face of the second tranche of tax increases next spring.

Mark Brown

The author is head of strategy and economics at Hoare Govett Securities

OBSERVER

All that is Gold-man?

■ A tricky year for Goldman Sachs draws to a close on a suitably downbeat note. Profits? But a pale shadow of last year's $2.7bn pre-tax extravaganza. Bonuses? Commensurately lean. Adding insult to injury, one of its number has turned up his nose at the offer of a partnership – for only the second time in the firm's 125-year history.

Investment banker Kevin Conway, whose name appeared two months ago on the once so highly prized list, and who had until the end of last week to sign a partnership agreement, has broken the news to Goldman that he is off to become a senior principal at New York buy-out firm Clayton, Dubilier & Rice.

Goldman's rivals could barley contain their glee. Surely Conway's decision – following on from a similar slap in the face to the prestigious Wall Street house delivered by another independent spirit two years ago – only went to show that partnership had lost its lustre as a guaranteed route to riches at this generally much-envied institution? The ghastly rumour of possible capital calls on partners themselves this year also resurfaced.

Nonsense, says Goldman very firmly to that piece of mischief, reminding its rivals both that the 57 partners signed up still constitute a record new intake, and that, in the last week, it has just pulled in an additional $250m in capital from a Hawaiian institutional investor.

Conway's defection is of course also a feather in the cap for Clayton, Dubilier – even if one cannot help wondering just how much it had to fork out to win him.

Taking a bath

■ Observer's learned readers spy greater depths of significance in Bill Rooney's decision to stage his comeback – just over a year after being kicked out of Spring Ram – via another bathroom goods supplier called Atreus. A doomed family of classical antiquity it may be, this House of Atreus, but it looks as if Rooney did his research. After all, where did Clytemnestra and her lover Aegisthus choose to murder the queen's husband, Atreus scion Agamemnon, on his return from Troy? In the bath, of course.

Another reader, meanwhile, believes the choice is not just symmetric, but prophetic, too. For it was to the House of Atreus that Hermes gave a Ram (Golden rather than Spring, but still) which conferred kingship on its possessor. In one version of the myth, Atreus carelessly loses the Ram to his brother Thyestes and, endeavouring to get it back, hits upon the idea of feeding Thyestes with the flesh of his own children. Which has to signify that Rooney is planning a bid for his old company during which he will make mincemeat of the current directors. Doesn't it?

'You don't call me fab any more'

Jolly frustrated

■ Nice try. Next February being the 50th anniversary of Yalta, the Franklin D. Roosevelt Library and the Franklin and Eleanor Roosevelt Institute wanted to mark the famous meeting between FDR, Stalin and Churchill in some special way. The plan was to invite a troupe of scholars, historians and survivors of the original event to Ukraine.

Sadly, however, commemorating the accord which essentially delineated cold war Europe has proved unfeasible in the chaos that is the post cold war era.

So it fell to Verne Newton, director of the FDR Library, to call the thing off. Livadia Palace "offers a beautiful setting", he writes, but the conditions sound like a challenge even for the most ambitious conference organiser.

"Water is trucked into villages such as Yalta because of a drought that has dried up the springs and other sources of water. The fuel shortage is also acute which means there is little heat available." There are other problems as well, apparently, "such as an outbreak of cholera".

Hence the tentative rescheduling to either Ditchley or Cambridge, in April. Not the same, somehow.

Frontiersmen

■ Oh, the perils of those otherwise seductive emerging markets. The $50m Vietnam Frontier Fund, which has Bangkok merchant bank Finansa Thai controlling 70 per cent of its management company, was minded to throw a big bash for the opening of its Hanoi office.

Out went the invitations to the great and the good, whereupon the Vietnamese authorities churlishly pointed out that the office itself had yet to gain approval. The whole affair has had to be postponed.

If that were not enough, a Frontier Fund director has simultaneously been delivering an object lesson in the hazards of decorating letterheads with trophy names. When one William Colby applied for his Vietnamese visa, the powers that be had not forgotten the former head of the CIA, who had spent most of his war in Vietnam, orchestrating efforts to overthrow the Hanoi regime of the day.

The application was politely rejected – demonstrating that the country's enthusiasm for US investment dollars clearly has its limits.

C'mon boys

■ Today sees the award of the J O Hambro Businessman of the Year Award 1954, handed out by former Bank of England governor Lord Kingsdown.

Proceeds from the luncheon at the Savoy Hotel are destined for the Joint British Cancer Charities, while the prize goes to someone who has made an "outstanding contribution" not just to business but to the community and to the country in general.

All fine and good. But 1954? Well, that is surely the sort of date that would fit with the blurb flagging what is actually this year's award. "The occasion will be a mixed one," it states, "and we hope that wives and secretaries will be among the guests."

FINANCIAL TIMES
Monday December 5 1994

UK's Conservative rebels urged to back government over VAT

By Kevin Brown in London

UK Conservative backbenchers suspended from the ruling party for defying Prime Minister John Major over Europe were yesterday promised powerful rightwing backing if they support the government in a crucial vote on value added tax.

In a clear hint of the strength of rightwing support for rapprochement with the rebels, Mr Peter Lilley, the Eurosceptic social security secretary, said he hoped they would "get themselves back on board as soon as possible".

He told BBC television Mr Major had no option but to withdraw the whip after the rebels abstained on a vote of confidence. But he said they could "work themselves back into the party".

However, some of the rebels appeared determined to remain outside the parliamentary party until the government bows to their demands for a referendum on further integration with the European Union.

Ministers remain confident that a Labour procedural motion reopening the issue of VAT on domestic fuel will be defeated tomorrow in spite of a threatened rebellion by up to a dozen Tory backbenchers.

But government whips say that the outcome may depend on the loyalty of four of the eight backbenchers from whom the whip was withdrawn.

The four are Mr Tony Marlow, Mr Michael Carttiss, Mr Nicholas Winterton and Mr Richard Shepherd. Sir Richard Body, who resigned the whip voluntarily, is also a potential VAT rebel.

All nine MPs who lost the party whip last week have been warned by the government whips' office that their prospects of being readmitted to the parliamentary party would be damaged by a further rebellion.

However, Mr John Major is coming under strong pressure from senior Conservatives to rehabilitate the rebels quickly to Rebuild the government's majority, which was wiped out by the decision to withdraw the party whip.

Some of the rebels appeared reluctant to respond to overtures from the government.

Mr Marlow said: "When and whether we have the whip back, one thing that is certain is that we are not going to take it back in ones and twos. We are all going to take it back together or not at all."

Others said their decision to rejoin the parliamentary party might depend on the government's willingness to bow to pressure for a referendum on further integration with Europe.

"I think we should use our influence to get the Government to agree to consulting the people in a referendum. I would forgo the whip if it meant I had to back down on that point," Mrs Teresa Gorman said.

Mr Douglas Hurd, foreign secretary, told BBC television that the case for a referendum was unproven. However, Mr Lilley added to the growing impression that the government is moving towards conceding a referendum as a means of bridging the party's divisions.

Labour plans for UK royal family prompt Tory rage

By Kevin Brown, Political Correspondent

The UK opposition Labour party is drawing up a comprehensive constitutional reform package that would cut the cost of the royal family and prevent ministers from using the antiquated rules of crown privilege to bypass parliament.

The proposals prompted outrage from senior ministers, many of whom believe the Conservatives would win a general election fought on constitutional issues such as the role of the monarchy and the UK's place in Europe.

Labour's proposals, which will be given a preliminary airing tonight in a BBC television programme on the monarchy, are being drawn up by a Commission on Democracy that will report to the party's 1995 conference.

Initial attention is likely to focus on Labour's proposals for a big reduction in the number of royals carrying out official functions, heralding a smaller monarchy along Scandinavian lines.

However, the commission is also considering fundamental changes to the sovereign's residual executive powers, most of which are in practice exercised by ministers.

The powers include appointment of officials without reference to parliament, making foreign treaties and binding regulations by executive order, and exempting government activities from the law.

The democracy commission is also considering the practical implications of Labour's plans to abolish the right of hereditary peers to vote in the House of Lords, and to set up assemblies in Scotland, Wales and the English regions.

It will also confirm Labour's plans for fixed parliaments and propose a new bill of rights entrenching the status of regional and local authorities and incorporating the European convention on human rights in UK law.

Mr Peter Lilley, social security secretary, accused Labour leaders of "trying to placate their leftwing activists with constitutional reform – downgrading the monarchy, splitting up the UK, subordinating Britain in Europe."

However, Mr Jack Straw, the shadow home secretary, said Labour was contributing to a national debate prompted by public disgust at the government's failure to uphold high standards of public behaviour.

He said the Tories were "making a big mistake if they think this is good ground for them".

Brussels data battle

Continued from Page 1

confidence of its consumers in their data, this enormous growth market will not get off the ground."

However, member states, notably the UK, argue that the laws are heavy-handed and will impose heavy costs on the private sector.

The UK government is most concerned about plans to extend data protection rules to information stored on paper. Data protection in the UK covers only information stored on computer.

It also opposes a proposed Commission requirement that individuals be told if information they have provided for one purpose is to be passed on to another institution for another purpose.

Ms Emily Marks of the Confederation of British Industry said it would cost millions just to give consumers access to data stored on paper.

"We are not opposed to the principle of data protection, but we think that the level of protection in the UK at the moment is adequate," she said.

But a Brussels official said: "If you exempt manual data you will create a tendency to circumvent rules by using old techniques. We want to have precisely the opposite effect, of encouraging new techniques."

He also argued that the UK was exaggerating the implications of the draft directive.

Apart from a 10-year transition period that would be granted for member states to adjust their rules, it would be possible to apply the rules pragmatically.

"Companies should not assume that the directive will create a wave of people requiring immediate access to manual files that are held on them," the Brussels official said.

Nordic countries also believe that the data protection directive is too bureaucratic and that the rules could conflict with open access to public documents and rules on freedom of expression.

Swiss vote to introduce curbs on immigrant drug dealers

By Ian Rodger in Zurich

Swiss citizens yesterday voted massively in support of a law making it easier to detain immigrant drug dealers who pose as asylum seekers.

Religious and leftwing groups opposed the tough sanctions as infringements of human rights. They also feared it would breed anti-immigrant sentiment.

But Swiss have been disturbed recently by the sight of misery at Zurich's open drug scene, rising crime and a threat from Lebanese dealers last August to start a bombing campaign in the city.

Nearly three quarters of those who voted supported the law. There were big majorities in every canton, except in Geneva.

The law is aimed at stopping foreign drug dealers from taking advantage of the asylum law. Typically, these dealers throw their passports away after entering the country, apply for asylum and proceed to deal.

If they are caught, the police can detain them only for 30 days. If their applications for asylum are still under consideration, they cannot easily be deported. When they finally do leave, relatives or friends replace them.

The new law allows for detention of any foreigner found without identification for three months, and for a further nine months if they appeal against deportation. If a person is believed to constitute a threat to law and order, they can be excluded from specified areas.

The new law is one of several measures taken in the past three months following a reversal of Zurich's liberal policy towards its large drug-addict community.

The city, ruled by a socialist-green coalition, had used its drug policy as a challenge to its conservative opponents at the cantonal and federal levels.

Since the bomb threats in August, all three levels of government have been co-operating to break the power of the dealer gangs and close the market. Much-needed additional prison space has been created and a controlled heroin distribution programme expanded.

Diet of fondue and fish, Page 2

THE LEX COLUMN

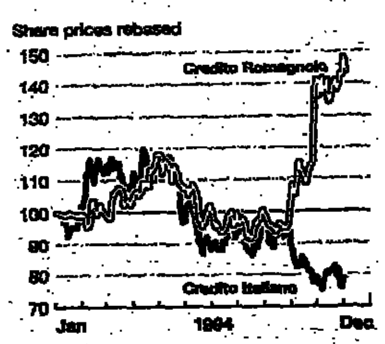
Insolvency options

There have long been complaints that Britain's banks are too ready to shut down insolvent businesses. One reason is that banks have first call on a company's assets, so liquidation may suit them even if it does not maximise a firm's value. Trade creditors and shareholders may do better by keeping the firm going but are unable to insist on it.

In last week's budget, the chancellor promised action to prevent firms going needlessly to the wall. In particular, he is considering an ingenious method proposed by three economists for resolving the conflict between different classes of claimant. In the simple case, when there are only banks and shareholders, the scheme works as follows: the banks receive all the insolvent company's shares; but each shareholder has the option to buy back his shares by paying the banks an equivalent proportion of what they are owed. According to the economists, the scheme is in the interest of banks, as they either end up owning the company or receive their money. It benefits shareholders, as they can buy out the banks if they think the firm is worth more than its debts. It should also prevent needless liquidation, as whoever ends up owning the firm will only wind it up if that is the best way of maximising value.

The main criticism is that the scheme becomes unworkable when multiple classes of creditor are introduced. In particular, small trade creditors may not have the expertise to decide whether to exercise their options to buy out the banks. The economists have an answer to this criticism: why not have a market in the options? Specialist investors who do have the necessary expertise would then be able to buy up the options of small creditors. Some think the whole idea is too clever by half. But it is actually not terribly different from trading in nil-paid rights.

Italian bank takeover battle



Source: FT Graphite

Italian banks

Credito Italiano's hostile bid for Credito Romagnolo looks set to succeed. The weekend's improved offer will be hard for Rolo shareholders to refuse. It is certainly better for investors than the defensive merger with Carisbo dreamt up by Rolo's management. The deal does not look so good for Credit's shareholders. Since its privatisation last year, the bank has come under the sway of Mediobanca, the powerful Milanese merchant bank, and embarked on an expansion strategy. In doing so, it is probably overpaying.

It is also bizarre that a relatively inefficient bank such as Credit should be buying a relatively efficient one such as Rolo. How well each group of shareholders is doing is shown in the accompanying chart: Rolo's share price has outperformed Credit's by nearly 100 per cent since bid speculation surfaced in September. One can only hope that some of Rolo's efficiency now rubs off on Credit.

Where Credit is right is in its belief that Italy's banking sector needs streamlining. Ideally, the country would sport a small number of truly national banks rather than about 1,000 mostly local ones. Though Credit's bid for Rolo will hasten the rationalisation, the process is still likely to be slow. Some large banks such as government-controlled Banco di Napoli are in such bad shape that nobody is showing much enthusiasm to acquire them. Meanwhile, many smaller ones are controlled by charitable foundations and local interests, which are often more influenced by political than financial logic.

German exchanges

Last week's decision by BASF to delist its shares from all of Germany's stock exchanges apart from Frankfurt is a significant step for Finanzplatz Deutschland – Germany as a financial centre. This is the first time a big German company has made such a move but it is likely to be followed by others concerned to reduce the costs of multiple listings.

BASF's decision reflects the reality of Frankfurt's dominant position. Its share of turnover in German shares has risen from 43 per cent in 1980 to 74 per cent last year. So far this year, over 70 per cent of turnover in BASF stock has been handled in Frankfurt. But though Frankfurt has gained in importance, continued fragmentation still allows price variation between exchanges and impedes liquidity. It is also unwieldy for companies to raise capital and comply with disclosure requirements at seven different exchanges. Increasing concentration on Frankfurt means greater transparency and liquidity, which benefits both companies and investors.

Should more companies follow BASF's route, it will help Frankfurt compete more effectively with London for German securities business. The trouble is that regional ties will prevent some of Germany's largest companies from cutting their links with their local bourses – however financially beneficial such moves might be.

French pensions

French capitalism continues to struggle without adequate capital. The combined market value of domestic equities last year was equivalent to just 40 per cent of GDP. That compared with the UK's 128 per cent. The problem will partly be alleviated by the privatisation programme which, it was hinted, might include the massive France Télécom. But France's equity culture will be strengthened far more by pensions reform.

At present, retirees' pensions are distributed directly by contributions from the active workforce: there are no capitalised pension funds to invest in the market. But the present system is unsustainable: the welfare deficit, which last year reached FFr40bn, is set to deteriorate rapidly as France's population ages. The reforms, which are politically contentious and whose structure remains unclear, should be enacted after the presidential elections next spring. Whatever is decided, the insurance companies' role will be pivotal. The acquisitions of Sun Life by UAP, and Equity & Law by Axa were partly motivated by the need to gain fund management experience.

The bourse will be significantly strengthened as fund managers are attracted by equities' better long-term returns. With more stable long-term shareholders, France's corporations will no longer have an excuse for their complicated cross-shareholdings which protect management from the market's discipline. None of this will happen overnight. But reform should eventually provide France with twin benefits of adequately funded pensions and a stronger stock exchange.

FT WEATHER GUIDE

Europe today

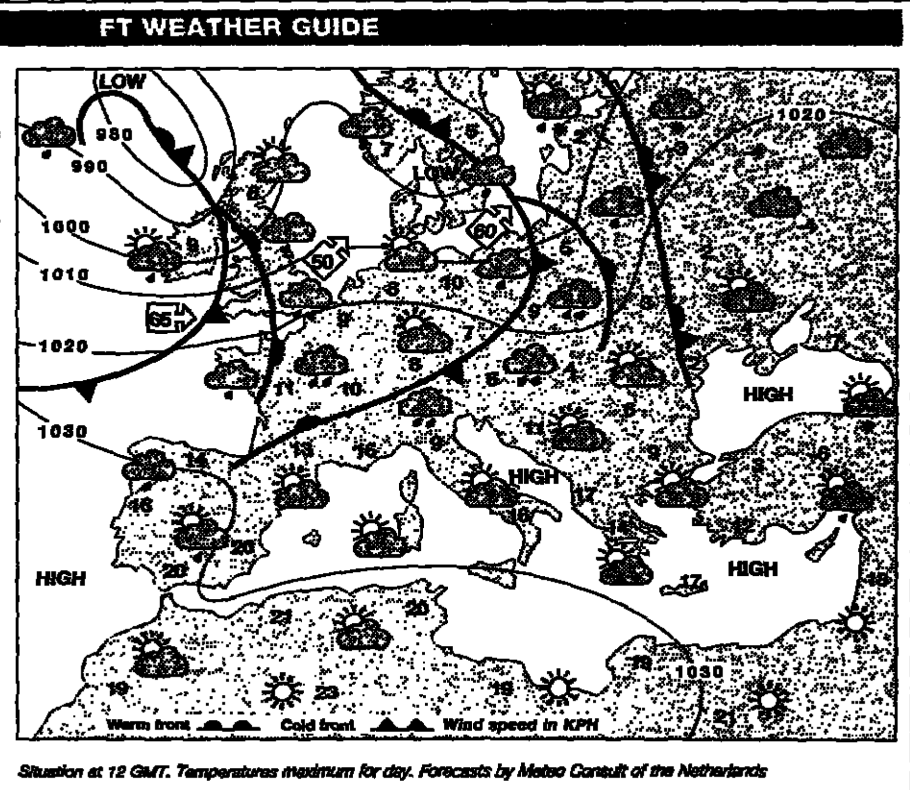
A strong westerly flow will make most of Europe very changeable. Fronts from an active low pressure system will move across the British Isles from west to east. The system will bring heavy rain in the west and severe gales over the eastern Atlantic.

The Low Countries and France will be calm for a time as a ridge of high pressure crosses the region. Another active low will move into northern Denmark increasing the risk of strong gales in the far south of the Baltic. Its associated frontal systems will bring outbreaks of rain to Poland and east Germany. Finland and northern parts of Sweden will have snow at times.

A large high pressure system will dominate the Mediterranean.

Five-day forecast

The strong westerly air flow will continue from the Atlantic into Europe. The western coasts of Europe will be stormy at times, with high winds and heavy rain. The Low Countries, the British Isles and northern parts of France, will be particularly wet. Western and central parts of the Mediterranean will be influenced by high pressure, while the eastern Mediterranean will be increasingly unsettled.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius	
Abu Dhabi	fair	22
Accra	fair	32
Algiers	sun	22
Amsterdam	fair	8
Athens	sun	15
Atlanta	shower	21
B. Aires	fair	24
B.ham	rain	7
Bangkok	cloudy	33
Barcelona	fair	17

Beijing	sun	8
Belfast	rain	9
Belgrade	fair	10
Berlin	shower	10
Bermuda	fair	24
Bogota	cloudy	18
Bombay	sun	32
Brussels	fair	8
Budapest	cloudy	4
C.hagen	shower	7
Cairo	cloudy	18
Cape Town	sun	26

Caracas	sun	30
Cardiff	rain	10
Casablanca	sun	20
Chicago	rain	10
Cologne	shower	9
Dakar	sun	28
Dallas	sun	24
Delhi	sun	28
Dubai	shower	23
Dublin	rain	10
Dubrovnik	fair	16
Edinburgh	rain	6

Faro	fair	20
Frankfurt	shower	9
Geneva	shower	9
Gibraltar	fair	19
Glasgow	rain	6
Hamburg	shower	8
Helsinki	rain	2
Hong Kong	fair	24
Honolulu	fair	28
Istanbul	fair	9
Jakarta	cloudy	31
Jersey	rain	12
Karachi	sun	31
Kuwait	fair	15
L. Angeles	fair	18
Las Palmas	sun	24
Lima	fair	24
Lisbon	fair	18
London	rain	10
Lux.bourg	fair	7
Lyon	fair	10
Madeira	fair	22

Madrid	fair	16
Majorca	fair	19
Malta	fair	19
Manchester	rain	7
Manila	cloudy	31
Melbourne	sun	35
Mexico City	cloudy	22
Miami	thund	28
Milan	fair	9
Montreal	snow	2
Moscow	cloudy	-3
Munich	shower	8
Nairobi	fair	24
Naples	fair	16
Nassau	fair	28
New York	rain	13
Nice	fair	16
Nicosia	fair	9
Oslo	shower	2
Paris	fair	10
Perth	fair	23
Prague	rain	7

Rangoon	fair	32
Reykjavik	snow	0
Rio	fair	30
Rome	fair	17
S. Frsco	fair	14
Seoul	sun	4
Singapore	cloudy	31
Stockholm	shower	5
Strasbourg	fair	10
Sydney	sun	24
Tangier	sun	20
Tel Aviv	cloudy	17
Tokyo	shower	14
Toronto	rain	10
Vancouver	fair	2
Venice	fair	10
Vienna	fair	4
Warsaw	shower	5
Washington	rain	16
Wellington	fair	18
Winnipeg	snow	-15
Zurich	fair	6

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FINANCIAL TIMES
COMPANIES & MARKETS

Monday December 5 1994

MARKETS
THIS WEEK

JOHN PLENDER:
GLOBAL INVESTOR
The one thing on which there appears to be complete consensus after the UK Budget last week is that the recent hard-won improvement in the public finances will be thrown away before the next election. Page 19

MARTIN WOLF:
ECONOMIC EYE
Within Europe, it is a widely held view that national sovereignty has become an "empty shell". Only by banding together can Europe compete with the US and Japan. Martin Wolf argues that this is nonsense. Mere size has nothing to do with prosperity. What matters is efficient use of resources, which is open to big countries and to small ones. Page 19

BONDS:
Just when it seemed safe to wind down for Christmas, the eurobond market – and especially its dollar sector – last week saw a burst of primary activity. Page 20

EQUITIES:
On Wall Street, rumbles of another interest rate increase are being heard once again but despite investor fears that recent strong economic data will lead to another round of monetary tightening by the Federal Reserve, the Dow Jones Industrial Average posted its highest gain in more than a month. In London, the FT-SE 100 index has now launched 10 successful assaults on the 3,100 mark since falling through that level at the end of March. Page 22

EMERGING MARKETS:
Brazil's stock market has shown spectacular growth this year and, with a new currency bringing down inflation and a modernising president about to take office, many analysts are tipping it as the star emerging market for 1995. Page 21

CURRENCIES:
The resurgent dollar will be the focus of attention this week after breaking through the Y100 level last Friday for the first time in two months. Page 21

COMMODITIES:
An explosion last month at the power plant supplying Norilsk in Siberia, the world's biggest nickel refinery, was largely responsible for last week's 19 per cent surge in nickel prices at the London Metal Exchange. Page 19

INTERNATIONAL COMPANIES:
Optus Communications, the Australian telecommunications group, said that Mr Kerry Packer's Publishing & Broadcasting had abandoned plans to invest A$318m (US$245m) in it. Page 17

UK COMPANIES:
Century Inns, which owns 300 pubs in north-east England, is planning to come to the market early in the new year. The group, which is expected to have a market capitalisation of £60m ($98m), is aiming to raise more than £30m. Page 16

STATISTICS

Russian gas giant approaches investors

By Nicholas Denton in London and John Thornhill in Moscow

Gazprom of Russia, the world's largest gas producer, has made its first approach to international investors in the build-up to a planned offering of 9 per cent of its stock.

Gazprom is spearheading a drive by Russia's largest oil, electricity and telecommunications companies to follow their domestic privatisation by tapping international capital markets.

Kleinwort Benson, the UK investment bank which has been advising Gazprom since May, is expected to make a formal approach to industry and financial investors early next year.

It emerged last week that Mr Rem Vyakhirev, Gazprom's chairman, spoke at a private presentation to 150 fund managers and other potential investors in New York on November 10.

Expectations about the speed of the transaction, and indeed its likelihood, have dipped as the state of Gazprom's accounts has become apparent. Gazprom has hired Price Waterhouse to get its accounts in order and the pace of this effort to improve the quality of information for investors will be critical in determining the timing of the offer.

Kleinwort and Price Waterhouse have to judge the accuracy of estimates by the BP Review of World Energy that Gazprom controls 24 per cent of world gas reserves.

They will also have to verify claims that in 1993 the company produced nearly 10 times as much gas as Exxon of the US. Apart from evaluating the worth of vast and scattered assets, the auditors will also have to assess potential environmental liabilities.

Financiers doubt the feasibility of the timetable for the issue. One said: "If you told me it would take 10 years to audit Gazprom I would not be surprised."

The resilience of interest in Gazprom was nevertheless demonstrated again last week as foreign investors bid up the small float of shares on the Vladivostok Stock Exchange. It was reported on Friday that Gazprom offered a tranche at a price of Rbs16,315 ($5). At that price, the company would be valued at $118bn.

Another of Russia's biggest energy companies, Lukoil, plans to make a presentation to investors this week, also in New York. Lukoil, which produces 15 per cent of Russia's oil, plans to sell 15 per cent of its equity.

Lukoil and United Energy Systems, the Russian electricity company, are expected to have American Depository Receipts in place by the first quarter of next year. They are following AvtoVAZbank, a regional Russian bank owned by vehicle maker AvtoVAZ, which has already filed for ADRs with the US Securities and Exchange Commission.

Appetite for Russian stocks is strong and regional investment funds alone raised more than $300m last month. But a dispute between a Russian metals group and an aluminium smelter over the validity of a $300m shareholding has reignited investors' fear about safe custody of their Russian holdings.

Some sections of the Russian government also believe the giant energy companies should be heavily regulated to prevent their abusing their dominant positions.

Russian oil carve-up, Page 2

Robert Peston and Bernard Gray reveal the behind-the-scenes tactics of GEC and British Aerospace

VSEL's suitors fight a war of whispers

If, as expected, UK trade and industry secretary Mr Michael Heseltine decides this week to refer neither of the two bids for VSEL to the Monopolies and Mergers Commission, the stage will be set for the final battle for control of the submarine builder between the two rival bidders, General Electric Company and British Aerospace.

Many see this as a skirmish in a longer war between the two British manufacturers – GEC's campaign, waged for more than a decade, to win control of BAe.

Privately GEC's executives and advisers admit that the company's main reason for bidding for VSEL is a spoiling exercise. If GEC's bidding can force BAe to pay too much for VSEL – or if it can seize control of the shipbuilder itself – then BAe would be more vulnerable to any takeover offer from GEC.

GEC does not, however, have the use of all normal takeover ammunition in its battle for VSEL. It promised the Ministry of Defence – a hugely important customer of all three companies – that it would refrain from publishing tracts designed to undermine the credibility of its rival. The MoD wanted to reduce the risk of an erosion of customer confidence in BAe, the UK's biggest defence contractor.

But, as in all takeover battles, there is a secret war being waged by GEC and its advisers – the merchant bank Lazard Brothers and the stockbroker Cazenove – in which they express their views in confidential letters, such as the one to MPs leaked last week to the Financial Times, or in private conversations. The nub of the GEC case is that BAe has been leaking cash at an unsustainable rate.

Similarly, BAe and its adviser, Kleinwort Benson, are equally damning about GEC's capabilities – especially its competence as a defence contractor.

GEC's letter to MPs sets out claims about BAe's financial fragility, based on an analysis of BAe's listing particulars. It highlights five trends about BAe in the past three-and-a-half years:

- an operating profit margin before "exceptional" provisions of less than 1 per cent on sales of more than £35bn ($57.4bn);
- "exceptional" provisions for liabilities in the order of £1.5bn;
- a cash outflow, before rights issues and the sales less purchases of businesses, of £2.5bn;
- a fall in shareholders' funds from £2.5bn to less than £1bn;
- a failure to resolve the problems in commercial aircraft and aircraft leasing.

The letter says that VSEL's cash would therefore be "absorbed in covering the cash outflow arising from the large losses accruing in other parts of its [BAe's] business".

The financial snapshot of BAe is made to look even more gory. A claim that total effective indebtedness is more than £1bn is for example made by including two classes of preferred securities which have some of the characteristics of debt and also the company's net exposure to aircraft leases.

Similarly, BAe's net assets are reduced sharply by deducting items not found in the accounts of many substantial companies. These include:

- prepayments to its pension fund of £113m;
- undepreciated costs of launching aircraft at £486m;
- the capitalised costs of rationalising operations, totalling £343m.

In response, BAe says that this analysis is based on a highly selective use of financial data and is backward-looking.

Mr Richard Lapthorne, BAe finance director, said yesterday: "There is nothing in these figures which is new to either our investors or our bankers, both of whom apply far greater due diligence in interpreting BAe's accounts."

He said that the £2.5bn cash outflow did not give a true picture of operating performance because it included a £1.2bn reduction in cash held on account for customers. It also included a £900m cash drain relating to businesses – such as the Rover carmaker – now sold.

He said: "Confidence is about the future. During the course of the VSEL bid, and unlike GEC, BAe has consulted with its large shareholders extensively, and the management team has their full backing. This was clearly shown by the successful underwriting of the two-part rights issue to finance the VSEL deal two weeks ago."

Nonetheless there could be further cash outflows at BAe. At the end of last year, its balance sheet contained £1.34bn of provisions to cover future costs, such as the net exposure to aircraft leases mentioned earlier and the forecast expenses of reorganising its businesses.

As the reorganisation is carried out over the coming months and redundancy expenses are incurred – or as lease payments are made without receipt of rental income – then provisions will be translated into cash payments.

BAe's campaign concentrates on GEC's management and export record. Put another way, GEC's propaganda is aimed mainly at the stock market, while BAe's is probably more effective in influencing opinion in Whitehall and Westminster.

BAe, for example, believes that GEC has not been able to establish itself as a credible defence prime contractor – a role it would have to take as owner of VSEL or indeed of BAe.

It alleges poor performance – project mismanagement, late delivery – in three contracts worth £3.4bn in aggregate: the Nimrod early warning radar system, the Spearfish torpedo and the Foxhunter radar system for Tornado aircraft.

BAe has collated considerable evidence on GEC's relationship with its workforce, which it describes as "poor". In GEC Marconi Avionics, GPT, Yarrow shipbuilders and GEC Switchgear it cites examples of strikes or breakdowns in talks with unions. BAe is also critical of GEC's management of its Yarrow shipbuilding business, where growth in sales per employee is alleged to be worse than that of Vosper Thornycroft, an independent company, and no better than VSEL's. BAe also points out that Yarrow has been largely unsuccessful in winning overseas business.

However, in the run-up to the trade secretary's decision this week, BAe's strongest card may be its analysis of GEC's assurances on job security and research and development given during its last big bid. GEC has said it will keep Yarrow open for seven years were it to acquire VSEL. When GEC and Germany's Siemens made a joint bid for Plessey, the MMC report and bid documents contained statements that the two companies had "no intention" of cutting employment at the acquired businesses and would retain their independent research facilities. BAe's analysis shows that Siemens has stuck to these intentions but that employment at Plessey defence subsidiaries acquired by GEC has been cut by 39 per cent. It also points out that Siemens expanded the R&D facility which it bought, while GEC closed Caswell, Plessey's silicon research group.

However, such arguments may soon be irrelevant. If, as is likely, the trade secretary allows GEC's bid to proceed, the battlefield will switch exclusively to the stock market.

This week: Company news

UK BREWERS

Raised glasses should show a fair head

Two brewers' results from the UK this week will exemplify the industry's trends and investors' intentions. Scottish & Newcastle, reporting today, has outperformed Bass, reporting on Wednesday, in both beer and stock markets.

They share beer and leisure as their two main lines of business, but Scottish & Newcastle has done better than Bass in both.

The main factors behind a rise in its interim pre-tax profits to about £145m ($237.8m) from £109m are the acquisition of the Chef & Brewer pub chain and expansion of its Center Parcs holiday villages. Brewing profits could be slightly ahead thanks to cost savings.

Scottish & Newcastle is not the darling of the sector, however. The speculation that it might pick up some or all of Courage is making investors cautious.

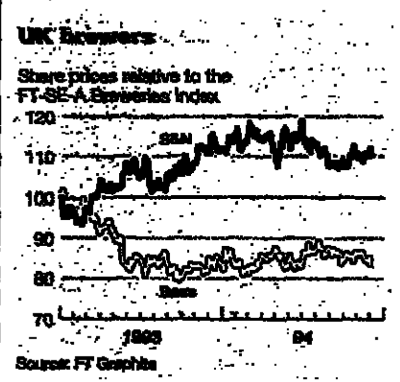
Bass is expected to report a more modest rise in pre-tax profits for the year ended September to about £540m from £508m.

Its brewing margins are likely to have slipped because of discounting and rationalisation costs while it has done well to hold volume in a market down about 1 per cent.

Its pub estate has enjoyed a pick-up in profits, but it is less well-developed than some others in, for example, food.

On the positive side, Holiday Inns has enjoyed rising occupancy and room rates, particularly in the US.

The good news for investors is that Bass appears to be changing its tune slightly on beer. In the past its ambition was to defend its leading market share, currently 23 per cent. Heavy discounting, particularly against Courage, took a toll on profits. It still wants to be number one but it placed more emphasis on profits and brand development in its trading update two months ago.



RECs

Market switched on for illuminating results

The UK's regional electricity companies' (recs) interim results season gets into full swing this week with London markets expecting high dividend increases following the 21 per cent rise announced on Thursday by Seeboard, the first of them to report.

Midlands tomorrow, Swalec (Wednesday) and Norweb (Friday) are all expected to raise payments to shareholders by at least 15 per cent and possibly considerably more.

Profit growth will also be healthy, although this will be of less interest to the City of London as so much of electricity companies' profits are made in the second half of the year including winter.

The City of London will also be looking for the companies' views of the forthcoming flotation of the National Grid which the recs own. Seeboard surprised investors by announcing that it would demerge its holding in the Grid by transfering shares to shareholders if a flotation takes place.

This puts pressure on others to follow suit, although some will want to wait until the conclusion of talks with the government before making an announcement.

Northern Ireland Electricity is expected to raise dividends by about 15 per cent when it reports today. Scottish Hydro-Electric, which announces results on Thursday, is expected to lift payments by 8 to 12 per cent

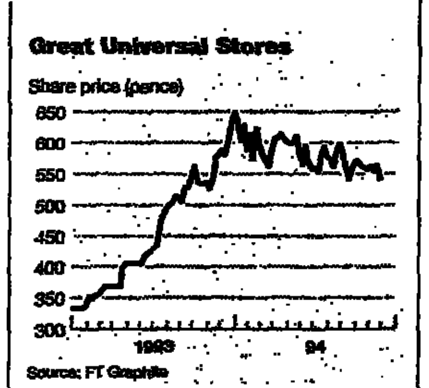
OTHER COMPANIES

Another milestone for Canadian bank

Royal Bank of Canada will report fiscal 1994 earnings on Tuesday, and is expected to be the first Canadian financial institution to post annual profits of more than C$1bn (US$727m). Royal's results are likely to follow the same pattern of declining loan losses, stronger credit demand and rising income from fee-related businesses reported by other Canadian banks over the past two weeks. Another common theme is that the year ahead will probably be even more profitable as business activity in North America continues to quicken. Royal is passing another milestone, with Allan Taylor, its chief executive, retiring to make way for the more assertive (and considerably younger) John Cleghorn.

■ Siebe: The international controls and engineering group is expected to report interim profits of about £117m ($191.9m) tomorrow and a dividend roughly 10 per cent ahead to just over 4p. The company's heavy exposure to US recovery has been a key attraction for investors.

■ Great Universal Stores: The UK-based mail order, retailing, financial services and property group is expected on Thursday to announce an 8 per cent increase in interim pre-tax profits from £213.2m to about £230m ($377.2m). Attention will again focus on the secretive group's £1.5bn cash pile, with last month's share buy-back by Boots,



the chemists and retailing group, having rekindled speculation that GUS might make a similar move. Most analysts believe a buy-back unlikely, but are keen to hear whether GUS has other plans for its cash.

■ NFC: The UK's largest transport and logistics group is expected to announce full-year profits for the year to September of around £110m ($180.4m) before tax and exceptional items tomorrow. The corresponding figure for 1993 was £95m. Attention will be firmly focused on news of an appointment of a new chief executive, following the company's fall-out with Peter Sherlock.

■ Carlton Communications: The UK television and television services group is expected to announce a significant jump in pre-tax profit on Wednesday when it publishes its results for the year. Analysts' forecasts range from £169m to £180m compared with £126.1m last time.

Companies in this issue

Century Inns poised for debut

By David Blackwell

Century Inns, which owns 300 pubs in north-east England, is planning to come to the market early in the new year.

The group, which is expected to have a market capitalisation of £60m, is aiming to raise more than £30m of new money. This would enable it to repay much of its total loan capital and borrowings, also of just over £30m, reducing gearing from 150 per cent to between 30 and 40 per cent and allowing for further expansion.

Mr Alistair Arkley, chief executive, was unfazed by Thursday's last-minute withdrawal of its flotation by Ushers, the Wiltshire-based brewer. "Ours is an entirely different business," he said. "We are in an oversupplied market as a buyer, rather than a producer."

Century was born as a £32m management buy-in in November 1991. Mr Arkley, former managing director of Brent Walker Brewing and Trading, and two colleagues formed the company to buy 185 tenanted pubs from Bass.

"We quickly saw opportunities to expand," said Mr Arkley. "We probably did the fastest ever refinancing of an MBI – for very good reasons."

The management raised a further £20m and did three deals that added another 100 pubs to the chain by June 1992.

Mr Arkley believes his management team is strong enough to support a chain of 500 pubs – "beyond that you need another layer of management". The team was built up as people became available after the shake-out caused by the anti-monopoly beer orders.

"We want to continue picking up pubs by tweaking debt and from the cash thrown off by the existing business," he said.

Most of the current pubs are tenanted houses. "In order to improve profits we have to get the rents up and sell more beer," he said. "Basically we are wholesalers of beer and advisers to three-year tenants."

However, he aims to expand the managed house side of the business, which comprises just four pubs at present, and sees the future in family facilities and catering.

Pre-tax profits for the year to the end of September rose from £4.66m to £5.69m on sales of £20.3m (£19.8m). Interest payable fell from £3.42m to £2.83m, reflecting the repayment of £2.5m of debt.

Mr Arkley believes the latest figures are indicative of the underlying growth in the business, which has the same number of pubs as it did the previous year. Operating profits were up 6 per cent at £8.39m in a market that fell 4 per cent.

The management, which will be selling some shares, owns 19 per cent of the business – a stake which would fall to about 10 per cent on flotation. Schroder Ventures, with 67 per cent, and First Britannia, with 12 per cent, have not decided how much of their stakes to sell.

Jacobs agrees £22m bid for Embassy

By Simon Davies

John I Jacobs, the shipping company headed by Sally Line founder Mr Michael Kingshott, has made a £22m recommended offer for Embassy Property, a group in which he has a 6 per cent stake.

Mr Kingshott, chief executive, said he intended to build up Jacobs as a shipping, transportation and property group, but Embassy's two largest developments are likely to be sold off to generate cash.

The company is also close to finalising the purchase of the car delivery business of BRS, a subsidiary of NFC, the logistics company.

Jacobs is offering one new share for every 65 Embassy shares. This represents a 35 per cent premium to Embassy's share price before it announced negotiations for the deal. At Jacobs' closing price on Friday, this represented 1p per Embassy share, compared with the company's stated net asset value of 0.84p.

However, Mr Kingshott said: "There is unrealised value to come out of the development properties, the properties are all valued at cost and there are £16m of tax losses".

The transaction would enlarge Jacobs' issued share capital by 51 per cent, leaving Mr Kingshott with 12 per cent of the company, down from 15 per cent. The deal is contingent on shareholders' approval and 90 per cent acceptances.

He said buying into a company with property management expertise would help develop the group's existing assets, such as warehousing. In addition, Jacobs plans to move into port ownership. It already manages Thames Europort.

The company also announced that Sheertrucks, purchased from Mr Kingshott and partner Mr Colin Williams last June, achieved profits of £678,300 in the year to October. As a result, the vendors will receive the maximum deferred consideration of £1.1m in new shares priced at 50p.

Board changes at Tomkins

Tomkins, the industrial components and food group, is expected to announce a boardroom reshuffle this week which will see the retirement of non-executive chairman Mr Michael Moore, after 14 years as a director, writes Peggy Hollinger.

Mr Moore, 58, will be replaced by Mr Greg Hutchings, who as chief executive has transformed the group from a small engineering company to a £2.5bn conglomerate. Mr Hutchings will become executive chairman.

Several other directors are expected to be promoted in the reshuffle, including Mr Ian Duncan, who will become deputy chairman.

Harmony in pub and shop deals

By Gary Evans

Harmony Property Group has announced the sale of six public houses, comprising its managed house division, to Gibbs Mew, the Salisbury-based regional brewer, for £3.25m cash.

The six pubs, one leasehold and five freehold, are all in the south-east. In the year to March 27 1994, they generated turnover of £1.7m with a book value of £3.7m at that date.

In return, Castle Arcade (Cardiff), part of Bridger Properties, in which Gibbs Mew has a 75 per cent stake, is selling Castle Arcade, a Victorian shopping arcade in Cardiff, to Harmony for £3.7m cash.

Mr Ian Jefferson, a Gibbs Mew director, also holds 25 per cent of Castle. Gross income of the arcade is currently £433,000 and is expected to rise to almost £500,000 when fully let.

Harmony, which has changed from a leisure to a property based group, also announced the sale of Arion Properties, which lets residential property in Edinburgh, for £750,000 cash. Net assets at March 31 1994 were £800,000. Proceeds will be reinvested in core activities.

Harmony's interim results showed losses up from £323,000 to £602,000 in the 27 weeks to October 2, after charging a £464,000 provision this time for losses on the sale of public houses. Turnover was £4.37m (£2.25m for 26 weeks) and losses per share came to 0.38p (0.5p).

No dividend is declared, but the company said it planned a capital reconstruction in anticipation of making payments next year.

Mr John Main, chairman, said Harmony was "in its strongest financial position for some years". Rental income was in the order of £1.6m, overheads had been reduced and gearing was "now at a sensible level".

Mr Tony Potter has resigned as finance director and company secretary. He will be replaced by Mr Richard Mellish.

Beverley holders to decide over CVA

By Simon Davies

Beverley Group shareholders are faced with the most crucial of recent crisis decisions, after their company proposed a Company Voluntary Arrangement to stave off liquidation.

According to Mr Colin Robinson, chairman, it should be an easy choice. Liquidation would return nothing to shareholders, and only 0.6p in the pound to unsecured creditors. A CVA will offer 4p in the pound to creditors.

A CVA provides for partial repayment of creditors, but leaves a clean shell company with a solvent operating business, and therefore some future.

This may be only limited consolation for shareholders who have seen the value of their investment plummet from 68p in 1990 to their pre-suspension price of 6½p last June.

The company never fully recoverered from its failed bid for James Wilkes in 1992, which cost more than £2m. A series of asset disposals in January, many to companies controlled by Beverley's directors, did little to halt the slide. The final blow was a failed reverse takeover by a Hong Kong Chinese group, costing another £450,000 in fees.

Mr Robinson claims that Beverley has one potentially profitable business, Beverley Fluid Engineering (BFE), which has been starved of cash due to parental difficulties.

By providing a structure for repaying creditors, the CVA will take those liabilities off the balance sheet. Mr Robinson said this should add about £3.5m to Beverley's asset value. A CVA for its BFE subsidiary will enable part repayment of a £1.42m loan from its parent at an eventual 20p in the pound.

Beverley plans a placing to raise about £450,000, which will be channeled straight into BFE, providing the funds necessary to pay off creditors, who will receive tranches in April and May 1995, and April 1996. Creditors and shareholders meetings will both be held on December 20.

Close Brothers to expand via £105m syndicated loan

By Nicholas Denton

Close Brothers Group, the merchant bank, is expected to announce today that it has taken out a £105m syndicated loan to finance further growth of its own loan book.

Of the funds £65m will be used to fuel an expansion of its asset finance and leasing operations, which stands in contrast to flat lending by the UK clearing banks.

"We've been growing the loan book pretty quickly when others have been going backwards or sideways," said Mr Rod Kent, managing director.

Close Brothers's lending has benefited from strong growth at its core clientele of domestic small and medium-sized businesses. They have recovered more rapidly than the large companies to which the UK clearing banks are most exposed.

Factoring operations, Close Brothers's own included, have reported growth in turnover at clients of 20 per cent this year. Lenders to small companies have also suffered less from the shift of corporate borrowers from banks to capital markets.

Close Brothers obtained the loan from a syndicate led by Barclays Bank at a spread of 35 basis points over the London interbank market.

That compares with 60 basis points when the bank borrowed last year; the change demonstrates the liquidity and narrowing of spreads on the syndicated loan market.

The bank specialises in factoring and financing the purchase of print machinery and insurance premiums.

Its loan book has grown at a compound rate of 25 per cent over the last four years and stood at £406m in July.

Close Brothers, the fifth largest quoted UK investment bank, sustained its record of unbroken profit growth over the last decade in its last annual results. The company announced pre-tax profits for the year to July 31 ahead from £17.8m to £33.1m.

Ulster Bank paying I£25m for stockbroker

By John MacManus in Dublin

Ulster Bank, the Irish subsidiary of National Westminster Bank, has applied for approval under Irish monopolies and mergers legislation to buy NCB, the second largest Dublin stockbroker, for I£25.5m (£25.1m).

The deal follows eight months of negotiation and will involve a payment of I£10.5m with another I£15m over five years depending on performance.

Mr Dermot Desmond, the broker's non-executive chairman and 56 per cent shareholder, stands to receive more than I£14m. At least I£6m of this will be paid initially, but Mr Desmond may actually receive a larger portion up front as he is leaving the company. The rest will be split between 35 other employees who own the balance.

Henderson Strata net assets rise 5%

Henderson Strata Investments had a net asset value per share of 284p at October 31 a rise of 4.8 per cent on the 271p of a year earlier.

Gross revenue for the year increased by £15,000 to £841,000, but the after-tax figure dropped to £167,000 (£222,000) for earnings per share of 1p (1.36p).

A reduced dividend of 0.5p (1.4p) is recommended for the year.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Emerson Electric (US)	Control Techniques (UK)	Electronic drives	£204m	Recommended cash offer
Cincinnati Milacron (US)	Krupp Widia (Germany)	Measuring instruments	£58m	CM's biggest Euro-buy
Hasbro (US)	Unit of John Waddington (UK)	Toys & games	£50m	Waddington refocussing
Singer & Friedlander (UK)	Unit of Nordbanken (Sweden)	Stockbroking	£45m	NB selling Carnegie
Hotel Properties (Singapore)	Zopar (Mexico)	Hotels	£23m	Four Seasons buy
Malbak (S Africa)	ProphormaPak (UK)	Packaging	£22.1m	Buy via MY Holdings
CRH (Ireland)	Tempglass (US)	Glass	£12.6m	Market & product expansion
Kleinwort Benson (UK)	La Salle Partners (US)	Financial Services	£12.6m	Stake boosts US operations
Siebe (UK)	Elwell (Italy)	Oil & gas equipment	£9.7m	Strengthening product range
Ford (US)	Samcor (S Africa)	Vehicle manufacture	n/a	Another SA re-entry

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 04.12.94: Pool purchase price £/MWh	Final Prices for Trading on 05.11.94: Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.23	9.22	9.22
0100	18.00	30.38	33.43
0130	68.70	35.38	38.43
0200	68.70	30.38	33.43
0230	9.24	9.91	12.96
0300	[illegible]	[illegible]	[illegible]
0330	[illegible]	[illegible]	[illegible]
0400	[illegible]	[illegible]	[illegible]
0430	[illegible]	[illegible]	[illegible]
0500	[illegible]	[illegible]	[illegible]
0530	[illegible]	[illegible]	[illegible]
0600	[illegible]	[illegible]	[illegible]
0630	[illegible]	[illegible]	[illegible]
0700	[illegible]	[illegible]	[illegible]
0730	[illegible]	[illegible]	[illegible]
0800	[illegible]	[illegible]	[illegible]
0830	9.20	8.10	8.10
0900	9.22	8.13	8.13
0930	9.27	9.23	9.23
1000	17.38	9.90	12.95
1030	27.38	22.62	25.67
1100	30.32	27.66	30.73
1130	38.25	36.66	38.73
1200	40.51	38.92	41.97
1230	47.00	38.92	41.97
1300	47.00	38.92	41.97
1330	40.51	38.92	41.97
1400	35.47	28.30	29.35
1430	30.32	28.30	28.35
1500	30.32	9.23	9.23
1530	30.32	9.22	9.22
1600	10.13	9.23	9.23
1630	33.86	32.33	35.38
1700	36.20	32.95	36.00
1730	47.00	47.36	50.41
1800	47.00	47.36	50.41
1830	38.20	47.36	50.41
1900	36.20	36.38	39.42
1930	36.19	35.24	38.29
2000	36.19	32.95	36.00
2030	33.89	32.95	36.00
2100	31.84	32.33	35.38
2130	31.84	32.33	35.38
2200	30.82	30.87	34.02
2230	24.36	24.83	27.88
2300	16.00	9.90	12.95
2330	9.23	9.22	9.22
2400	9.18	8.16	8.16

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.86/MWh becomes 1.886p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8:30am and 5:15pm Monday to Friday.
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Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 05.12.94: Pool purchase price £/MWh	Final Prices for Trading on 07.11.94: Pool purchase price £/MWh	Pool selling price £/MWh
0030	9.22	9.23	9.23
0100	9.27	9.90	12.08
0130	16.00	9.90	12.06
0200	16.00	9.90	12.06
0230	9.24	9.90	12.08
0300	[illegible]	[illegible]	8.20
0330	[illegible]	[illegible]	8.25
0400	[illegible]	[illegible]	8.16
0430	[illegible]	[illegible]	8.16
0500	[illegible]	[illegible]	8.16
0530	[illegible]	[illegible]	8.18
0600	[illegible]	[illegible]	8.16
0630	[illegible]	[illegible]	8.25
0700	[illegible]	[illegible]	31.94
0730	[illegible]	[illegible]	32.99
0800	[illegible]	[illegible]	33.24
0830	32.32	31.74	33.90
0900	32.44	38.50	40.68
0930	34.06	38.52	40.89
1000	34.14	38.54	40.71
1030	34.20	38.55	40.73
1100	34.25	38.55	40.73
1130	36.70	38.56	40.74
1200	36.77	56.47	58.65
1230	38.71	56.46	58.64
1300	34.23	56.44	58.61
1330	32.53	38.51	40.67
1400	32.48	31.76	33.92
1430	31.22	31.76	33.92
1500	31.22	31.76	33.92
1530	31.66	31.78	33.94
1600	59.65	32.18	34.48
1630	156.80	58.71	68.33
1700	284.50	92.33	104.87
1730	331.54	114.81	127.24
1800	241.55	108.25	117.29
1830	111.01	74.21	79.63
1900	62.46	44.91	48.03
1930	46.05	42.17	44.61
2000	40.24	41.33	43.54
2030	37.11	31.76	33.92
2100	32.10	56.39	58.54
2130	32.08	56.39	58.54
2200	32.06	31.74	33.89
2230	30.10	30.83	32.99
2300	30.54	27.59	29.74
2330	9.29	10.11	10.11
2400	8.14	10.09	10.09

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £18.86/MWh becomes 1.886p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0602-456789 between 8:30am and 5:15pm Monday to Friday.
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Templeton

Templeton Global Strategy Sicav
Société d'Investissement à Capital Variable
Centre Neuberg, 30, Grand-rue, Luxembourg
R.C. B-35.117

Notice to shareholders

As resolved at the Annual General Meeting of the Shareholders held in Luxembourg on 30 November, 1994, Templeton Global Strategy SICAV will pay the following dividends against presentation of the respective coupons:

Fund	Currency	Amount per share	Coupon number	Payment date
Templeton Global Growth Fund - Class A	USD	0.0312	1	16.12.94
Templeton DM Global Growth Fund - Class A	DM	0.0530	1	16.12.94
Templeton Smaller Companies Fund - Class A	USD	0.0033	1	16.12.94
Templeton Far East Fund - Class A	USD	0.0325	1	16.12.94
Templeton Emerging Markets Fund - Class A	USD	0.0808	1	16.12.94
Templeton European Fund - Class A	CHF	0.0021	1	16.12.94

Paying Agent in Luxembourg:
The Chase Manhattan Bank Luxembourg
5, rue Plaetis
L-2338 Luxembourg

The funds are traded ex-dividend as from December 1, 1994.

For any queries, shareholders are invited to contact their nearest Templeton office:

Edinburgh 031-469-4000 | Frankfurt 069-272-230 | Luxembourg 46 66 67-1

The Board of Directors
December 1994

Nacional Financiera, S.N.C.

US$100,000,000
Collared floating rate notes due 1998

The notes will bear interest at 6.875% per annum for the interest period 5 December 1994 to 5 June 1995. Interest payable on 5 June 1995 will amount to US173.78 per US$5,000 note and US$3,475.69 per US$100,000 note.

Agent: Morgan Guaranty Trust Company

JPMorgan

SGA SOCIETE GENERALE ACCEPTANCE N.V.
FRF 500,000,000
REVERSE FLOATING RATE NOTES DUE SEPTEMBER 2003
ISIN CODE : XS0044791738

For the period December 01, 1994 to March 01, 1995 the new rate has been fixed at 7,3125 % P.A.
Next payment date : March 01, 1995
Coupon nr : 3
Amount :
FRF 1828,13 for the denomination of FRF 100 000
FRF 18281,25 for the denomination of FRF 1 000 000

THE PRINCIPAL PAYING AGENT
SOGENAL
SOCIETE GENERALE GROUP
15, Avenue Emile Reuter
LUXEMBOURG

SGA SOCIETE GENERALE ACCEPTANCE N.V.
FRF 500,000,000
REVERSE FLOATING RATE NOTES DUE JUNE 2003
ISIN CODE : XS0043249860

For the period December 01, 1994 to March 01, 1995 the new rate has been fixed at 8,5625 % P.A.
Next payment date : March 01, 1995
Coupon nr : 4
Amount :
FRF 2140,63 for the denomination of FRF 100 000
FRF 21406,25 for the denomination of FRF 1 000 000

THE PRINCIPAL PAYING AGENT
SOGENAL
SOCIETE GENERALE GROUP
15, Avenue Emile Reuter
LUXEMBOURG

Packer offshoot pulls out of deal with cable group

By Nikki Tait in Sydney

Optus Communications, the Australian telecommunications group set up as a competitor to the government-owned Telstra, has announced that Mr Kerry Packer's Publishing & Broadcasting (P&B) had abandoned plans to invest A$318m (US$245m) in it. The investment would have bought P&B a 15 per cent stake in Optus.

P&B was created last month by the merger of Mr Packer's magazine publishing and television interests, which include the leading Nine Network channel.

When the Optus deal was announced in April, it was seen as an attempt by Mr Packer to gain a foothold in the fast-evolving world of "superhighways" and pay-TV.

Optus and Nine, plus two other partners, subsequently announced that they were forming a joint venture company, called Optus Vision, to build a national cable network.

This would be used both for pay-TV and local telephony services, breaking Telstra's monopoly in the latter area.

However, P&P never completed the Optus investment, and suggestions that Mr Packer might not pursue the deal began to circulate after the government decided that it would not allow Optus Vision exclusive rights to cable any particular geographical area. Instead, it said laying duplicate networks by Optus and Telstra would be permitted.

Optus Vision threatened to drop its cabling plans, but the government has refused to budge. If Optus Vision sticks to its threat, Telstra – which has linked up on the pay-TV front with Mr Rupert Murdoch's News Corporation – will be the only cable infrastructure provider.

In its announcement, Optus said only that it was disappointed, but "respected their [P&B's] right to make investment decisions according to their own priorities".

The telecoms group, which competes with Telstra in the long-distance and cellular phone markets, is currently owned by a mixture of institutional and corporate investors, including Britain's Cable & Wireless, Mayne Nickless, the AMP Society and Bell South of the US. It has said that it plans to float on the stock market next year.

Canadian printer in UK move

By Robert Gibbens in Montreal

Quebecor Printing, North America's second-biggest commercial printer, is finally acquiring HunterPrint, the lossmaking UK printer, for about C$3m (US$2.2m).

HunterPrint will be Quebecor Printing's first foothold in Britain and it plans further expansion soon, said Mr Pierre Karl Peladeau, president of Quebecor Group and in charge of the Canadian company's European expansion.

Quebecor Printing in turn is a subsidiary of the Quebecor Publishing Group based in Montreal and controlled by the Peladeau family.

Quebecor has been negotiating to buy HunterPrint for two years. Now it is offering 2p a share for the ordinary shares and a further amount for the preferred. It already has 54 per cent of the ordinary shares committed under its offer.

HunterPrint, after a recent asset sale, has annual volume of about C$80m. Quebecor is negotiating with trade creditors and will put new working capital into HunterPrint.

Early this year, the auditors of debt-burdened HunterPrint expressed "fundamental uncertainty" over its prospects as a going concern.

In August in an attempt to cut debt, the Corby-based company sold its only active subsidiary, Hardy Printers, to a management buy-out team for £1.85m (US$2.88m).

At the time, the company said that even after the disposal, it would "only have sufficient working capital for its current requirements through the continued support of its existing bankers".

UK jeans maker to go private

By David Blackwell

Vivat Holdings, which makes jeans under the Lee Cooper brand, is being taken private in a deal that values it at more than £36m ($56m).

The group, which has had a patchy trading record over the last 10 years, has suffered from the fact that 15 shareholders held more than 90 per cent of the shares.

"Its status as a public company was an anomaly," said Mr Christopher Burnett, chairman since October 1991.

A new company, known as Chiefco, has been set up to buy Vivat. On Friday, it claimed to have bought, or to have irrevocable undertakings on, at least 69 per cent of the shares. It is offering 65p a share cash, a premium of 71 per cent over the closing price on December 1.

Chiefco is owned by NatWest Ventures, USI Holdings, Phoenix Fund Managers and Mr Heidi Djilani, chairman of Lee Cooper Tunisie.

USI Holdings is part of the Singapore based Wing Tai clothing group and has swapped its 29.1 per cent stake in Vivat for a similar stake in Chiefco. CNM, a French holding company, has sold its 28.1 per cent stake to Chiefco.

Mr William Jackson of NatWest Ventures said the company's main problem had been the lack of liquidity in its shares. "Whatever the management does – good or bad – the shares do nothing."

In the last three years the shares, which closed at 65p on Friday, have traded between 23p and 45p.

Rothmans parent ahead at midterm

By Ian Rodger in Zurich

Richemont, the Rothmans tobacco and luxury goods group, has reported a 13.6 per cent rise in pre-tax profits to £352.9m ($550m) in the six months to September 30, thanks largely to strong growth for its products in far eastern markets.

The Zug-based group said sales advanced 7.6 per cent to £1.88bn, and operating profit was up 11 per cent to £339m. It looked forward to "satisfactory" trading results in the full year.

Sales of the tobacco division rose 4.3 per cent to £1.27bn. The volume of cigarette sales was slightly ahead, with the main gains coming from Japan and the UK.

Operating profit from tobacco jumped 15.1 per cent to £249.5m, thanks to higher UK sales, price increases in France and higher sales and production cost reductions in Malaysia.

Revenues of the Vendôme luxury products subsidiary rose by 15.3 per cent to £605m, and its operating profits gained 10.8 per cent to £98.2m.

All the company's major product lines, including Cartier jewellery and watches and Dunhill leather goods, increased their sales. Growth was strongest in far eastern markets.

Losses on other activities widened to £2.5m from £2.3m, as the costs of developing the company's pay-TV interests in Europe more than offset a £5.2m profit from the US catalogue retailing investment. Additional investment in the pay-TV networks would be needed.

Group operating profits were reduced by £3m in goodwill write-offs in the half year. In the comparative period last year, there was £0.9m in goodwill write-offs and £12m in restructuring costs.

Pre-tax profits were boosted by net investment income of £16.9m, down 8 per cent.

Attributable profit was up 16.8 per cent to £112.8m or £19.64 per unit of shares in the Swiss company and its main Luxembourg subsidiary.

Radical changes for Stillwater

The platinum group could double production, says Kenneth Gooding

Stillwater Mining, the only producer of primary platinum group metals outside South Africa, is to be floated on terms that value the Montana-based company at about $230m.

Last year, Stillwater produced 3 per cent of the world's platinum and palladium, metals essential for some anti-pollution catalysts. Apart from South Africa, Russia's Norilsk is a big producer of platinum metals, but as a by-product from its nickel operations.

Some $40m of the $54m net proceeds from the offering will go to help double production by mid-1997.

In 1993, output was 66,000 troy ounces of platinum and 218,000 oz of palladium. If the first expansion is successful, Stillwater might develop a second underground mine to quadruple output.

A "red herring" prospectus issued to international investors shows Stillwater to have one of the richest platinum-palladium deposits but also to be one of the highest-cost producers.

Nevertheless, the new management suggests it could become one of the lowest-cost producers by implementing the expansion plan, by making radical changes to mining methods and by building a base metals refinery.

This would extract copper and nickel from the ore locally whereas at present Stillwater has to send material to Belgium for processing by Union Minière.

Stillwater, which started operating in 1986, was jointly owned until recently by Chevron, the US oil company, and Manville Corporation, one of the US groups that suffered financially from a previous involvement in asbestos mining.

Chevron, as part of its strategic decision to quit mining, disposed of its stake in September. Stillwater funded the purchase of Chevron's holding by privately placing shares and subordinated notes worth $49m.

Now the company intends to offer 4.5m shares and Manville will offer 1.2m Stillwater shares at between $12 and $14 each. They shares will be traded on Nasdaq.

Co-lead managers of the issue are Salomon Brothers, Kemper Securities and Fleming Martin. Manville will cut its holding in Stillwater from 50 to 31 per cent – or 27 per cent if an underwriters' over-allotment option is exercised.

Stillwater suffered a net loss of $5.63m on revenues of $53.8m last year, including a $7.9m one-time provision arising from the reorganisation of the Chevron-Manville partnership.

For 1992, there was a net loss of $5.4m on revenues of $46.2m. In the first nine months of this year Stillwater made a net profit of $2.1m compared with a $1.5m profit in the same period a year earlier.

Average cash costs fell to $177 a troy ounce last year against $191 in 1992.

However, in the first nine months of this year, cash costs went up to $183 an ounce because Stillwater's smelter was closed for three weeks for maintenance.

Average realised prices last year were $376 an ounce for platinum and $125 for palladium. In the first nine months of this year realised prices were $377 and $124 respectively.

Budapest picks advisers for gas privatisation

By Virginia Marsh in Budapest

Creditanstalt Securities of Austria and Goldman Sachs, the US investment bank, have won a mandate to advise the City of Budapest on the privatisation of its gas supply company, the largest in Hungary.

The decision is a blow for N.M. Rothschild, the UK merchant bank, which is advising the Hungarian government on the sale of the country's five regional gas supply companies and had also hoped to advise the City of Budapest.

The decision to appoint advisers comes after last week's announcement of government plans to privatise most of its energy industry, including 100 per cent, less one golden share, of the regional gas supply companies, over the next three years.

The City of Budapest, however, has yet to decide whether it will sell off a majority stake in its gas company, which serves the capital's more than 2m inhabitants.

According to Mr Gabor Demszky, the mayor, the privatisation of the company will run in parallel with the sale of the state supply companies but the city will decide on how much to sell off after next week's local elections.

International tenders offering majority stakes in the regional companies to strategic investors are due in the spring and have attracted strong interest from most of Europe's large gas companies.

Budapest Gas Works had fixed assets of Ft31bn ($281m) and revenues of Ft26bn ($236m) in 1993. It supplied 2.5bn cubic metres of gas to more than 700,000 industrial and domestic consumers.

The market price of the company, however, will depend on how much the government allows gas prices, which are presently below world levels, to rise.

The government, which still controls energy prices, is due to announce a decision this week.

Moody's may upgrade two Norwegian banks

By Karen Fossli in Oslo

Moody's Investors Service, the US rating agency, said it has placed the long and short-term ratings of Den norske Bank (DnB) and Christiania Bank, Norway's two largest commercial banks, under review for possible upgrade.

Norway's banks have emerged this year from their deepest crisis since the second world war.

For DnB, Moody's said the review would affect $160m of long-term debt. "This review was prompted by the bank's continued progress in reducing the level of non-performing loans," the agency said. In November, DnB reported nine-month pre-tax profits nearly trebled to NKr2bn ($291m) from NKr720m last year.

The volume of non-performing loans fell by NKr3bn to NKr7.2bn from the start of the year with one third of the fall occurring in the third quarter.

Moody's said the review of DnB would focus on the bank's prospect's for continued improvement in asset quality and on its ability to sustain adequate profitability levels.

For Christiania Bank, Moody's said the review would affect $550m worth of long-term debt and would focus on the bank's longer-term ability to maintain sustainable pre-provision profitability levels and on the outlook for further reductions of the bank's non-performing assets.

Last month, Christiania reported nine-month pre-tax profits nearly doubled to NKr1.12bn as gross non-performing and doubtful loans were reduced by 27 per cent to NKr11bn. Net non-performers fell 37 per cent NKr3.6bn.

The bank recently announced that it had disposed of one-third of its troubled fisheries loan portfolio in the US, reducing its outstanding loans in Seattle to $127m from $323.5m, and said it will not have to report further loss provisions in the fourth quarter.

THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ **TODAY**
Asahi Chem. 7¼% Bd. '99 Y712500.0
Bupa Fin. 10⅛% Sb. Gtd. Bd. '18 £1050.0
Croda Int. 3.1p
Enserch $0.05
Ex.-Import Bk Jap. 8% Gtd. Bd. 2000 $115.0
Farnell 3.8p
Fuji Bk Int. Und. Sb. Gtd. Var. Rate $1475.0
Gillette $0.25
Halifax Bldg. Scty. FRN '99 £138.16
Hamleys 2p
IBM Credit 10¾% Yen-Lkd. Dec.'95 $1075.0
Do. Rtg. Rate Yen-Lkd. Dec.'95 $259.10
Lockheed $0.57
Mitsubishi 6⅛% Bd. '95 Y82500.0
Paterson Zochonis 11.4p
Do. A (N/Vtg) 1.4p
Pochins 24p
Prudential Curr. Fd. Ptg. A Pf. 4p
Do. Ptg. B Pf. £4.0
Rockwell $0.27
Sanwa Fin. Aruba Gtd. Step FRN Sep.'02 $687.50
Sears 1.05p
Spirax-Sarco 3.5p

■ **TOMORROW**
CentreGold 1.6p
Essex Furniture 2.5p
Glynwed 7½% Db. 89/94 £3.75
QS Hldgs. 1.56p
Refuge 3.7p
Walker Greenbank 1.3p

■ **WEDNESDAY DECEMBER 7**
Antofagasta 1.45p
Brixton Estate 2.95p
Exmoor Dual Inv. Tst. 1.59p
Do. Inc. 2.3p
Ferguson Int. 4.5p
Glynwed 4.15p
Green (Ernest) 3.25p
Mercury Off. Stlg Tst. Pac. 0.62p
Do. Reserve Fd. 3.71p
Do. UK Fd. 1.29p
Northern Rock Bldg. Sb. FRN '02 £1688.99
Norway FRN Dec.'02 $127.08
P & O Prop. 7½% 1st Mtg. Db.97/2002 £3.75
Woolwich Bldg. Scty. FRN '96 £142.42

■ **THURSDAY DECEMBER 8**
Abbey Natl.Treas. Gtd. FRN '99 $12.48
Cardiff Auto Rec.(UK) 2 A FRN '97 £148.34
Do. Mezzanine FRN '97 £174.52
Elys (Wimbledon) 2p
Halifax Bldg. Scty. FRN '99 $12.64
Nat West Bk Var. Rate Cap. '09 £148.03
Nationwide Bldg. Scty. FRN '95 £138.08
Nippon Cheml FRN '96 $265.60
Nippon Cred Bk Gtd. Flg/Fxd Rate Jun.'04 $2732.29
Panther Sec. 1.1p
Reed Int. 5% Cm. Pf. 1.75p
Do. 7% Cm. Pf. 2.45p
Standard Chart. Und. Prim. Cap. FRN (3) $255.44
Sunset & Vine 2.5p
Uppsala FRN '96 $257.34

■ **FRIDAY DECEMBER 9**
Air London 1.9p
Allied Signal $0.1675
Anheuser-Busch $0.40
Can. O'seas Packaging C$0.62
Coles Myer A$0.09
Dai-Ichi Kangyo Bk Y4.25
Dun & Bradstreet $0.65
English China Clays 5.35p
European Inv. Bank 9⅛% Ln. '09 £237.50
Hoare Govett Small. Co's Index Inv. 1p
Lon. Smaller Co's Inv. Tst. 0.78p
M & G Recovery Inv. Tst. 0.9p
Do. Geared Units 0.9p
Do. Package Units 0.9p
Mitsubishi Bank Y4.25
Mitsubishi Corp. Y4.0
Mitsubishi Elect. Y5.0
NEC Y5.0
Rodamco 0.7p
Sanwa Bank Y4.25
Scottish Mort. & Tst. 1.4p
Tarmac 3p
Texaco $0.80
Throgmorton Dual Tst. 1.85p
Tokai Bank Y4.25
Toshiba Y5.0
UDO Hldgs. 5.78p
Warner-Lambert $0.61
Yasuda Tst. & Bank. Y3.5

■ **SATURDAY DECEMBER 10**
Densitron Int. 0.5p
Exxon $0.75
Grace (WR) $0.35
IBM $0.25
Leeds Perm. Bldg. Scty. 13⅜% Perm Int. Brg. £3406.25
Treasury 8% '03 £4.0

UK COMPANIES

■ **TODAY**
COMPANY MEETINGS:
Eleco Hldgs., Ware Most House, Baldock Street, Ware, Herts., 10.00
Kleinwort Development Fund, 10, Fenchurch Street, E.C., 12.45
Paterson Zochonis, Holiday Inn Crowne Plaza Midland Hotel, Peter Street, Manchester, 12.00
Sunset & Vine, 30, Sackville Street, W., 9.30
Tomorrows Leisure, Regent Hotel, 222, Marylebone Road, N.W., 11.00
BOARD MEETINGS:
Finals:
Abacus
Airtours
Bearing Power Int.
Berisford Int.
Denby
Dwyer
Edinburgh New Tiger Tst.
Faber Prest
Manakin
Young (H)
Interims:
Acal
Allen
Anglesey Mining
CRT
Drew Scientific
Eurodollar
Northamber
Northern Ireland Elec
Pillar Property Inv. Tst.
Schroder UK Growth Fd.
Scottish & Newcastle
Tinsley Robor
Wrexham Water

■ **TOMORROW**
COMPANY MEETINGS:
BM Grp., BM House, Avon Reach, Chippenham, Wilts., 11.00
Barry Wehmiller, 1, Finsbury Avenue, E.C., 10.30
London & St. Lawrence Inv., 111, Cannon Street, E.C., 11.30
Scottish Metropolitan Property, Glasgow Hilton, 1, William Street, Glasgow, 11.30
BOARD MEETINGS:
Finals:
Countryside Properties
Creston Land Estates
Eldridge Pope
Holmes & Marchant
Ransomes
Shaftesbury
Sturge
Interims:
Allied Colloids
BSS
Cattyns
Creightons Naturally
Fletcher King
Hazlewood Foods
London Clubs Int.
Midlands Elec
Morris Ashby
NFC
Powell Duffryn
Real Time Control
Siebe
Stagecoach
Sterling Publishing
Surrey Grp.
Tams (J)
Taunton Cider
Tor Inv. Tst.

■ **WEDNESDAY DECEMBER 7**
COMPANY MEETINGS:
Gartmore European Inv. Tst., Gartmore House, 16-18, Monument Street, E.C., 12.30
UDO Hldgs., Great Eastern Hotel, Liverpool Street, E.C., 11.00
BOARD MEETINGS:
Finals:
Avon Rubber
Bass
Blick
Carlton Comms
Hozelock
New Zealand Inv. Tst.
River Plate & General Inv.
United Drug
Interims:
Airsprung Furniture
Amberley Grp.
Anglo United
Artesian Estates
Assoc. British Eng.
BTP
Border TV
Courts
Crown Eyeglass
Drummond Grp.
Dunedin Enterprise Inv. Tst.
Hicking Pentecost
Mansfield Brewery
St. James Beach Hotels
South Wales Elec

■ **THURSDAY DECEMBER 8**
COMPANY MEETINGS:
Bolton Grp., 22, Gilbert Street, W., 10.00
Photo-Me Int., Church Road, Bookham, Surrey, 6.00
Throgmorton Dual Tst., 155, Bishopsgate, E.C., 12.00
BOARD MEETINGS:
Finals:
Aukett Assocs.
Compass
Drayton Recovery Tst.
Premier Land
SEP Indl.
Titon Hldgs.
Windsor
Interims:
Abtrust New Dawn Inv. Tst.
Brazilian Inv.
Cook (DC)
Eve Grp.
Fine Art Devs.
Great Universal Stores
Greycoat
Hartstone
London Int.
Racal Elec
Scottish Hydro-Elec
TGI
TR Technology
Vega
Wellman
Worthington

■ **FRIDAY DECEMBER 9**
COMPANY MEETINGS:
Air London Int., The Registry, Royal Mint Court, E.C., 10.00
Assoc. British Foods, New Connaught Rooms, Great Queen Street, W.C., 11.00
Attwoods, Sheraton Park Tower Hotel, 101, Knightsbridge, S.W., 11.00
GR (Hldgs), Chartered Accountants Hall, Moorgate Place, E.C., 12.00
Pressac, Novotel, Nottingham, 11.00
Wolseley, Vines Lane, Droitwich, Worcs., 2.30
BOARD MEETINGS:
Finals:
Estates & Agency
McCarthy & Stone
Turley Tst.
Interims:
BBB Design
Booth Inds.
East German Inv. Tst.
Faupel Trading
GEC
King & Shaxson
Lyons Irish
Norweb
Rolfe & Nolan
Templeton Emerging Markets Inv. Tst.
Wiggins Grp.

Company meetings are annual general meetings unless otherwise stated.

Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

CONFERENCES & EXHIBITIONS

DECEMBER 6-8
Online Information 94
The International Online Information Meeting sets the standards for internationally-available information products and services for the coming year. This event is the information industry's leading platform for the launch and discussion of electronically-available media, the largest information event of its kind in the world.
Contact: The Conference Department, Learned Information Ltd.
Tel: 01865 730275 Fax: 01865 736354
Olympia 2, LONDON

DECEMBER 8
The European Works Council Directive
CBI Conference with speakers from EU Commission, UK Government, Business and Trade Union Movement examining the new legislation on trans-border information and consultation of employees.
Contact: Sandra Aldred, CBI Conferences
Tel: 071 379 7400
24 hr Fax-on-Demand: 071 240 1248
LONDON

DECEMBER 12 - 14
Understanding Capital Markets
• Background/Development of the Market, Disintermediation, Securitisation, Main Participants, Regulatory Framework. • Fixed/Floating Eurobonds, Government Bonds, Ratings Bond Yields, Risk/Reward Relationship. • Effect of Currency/ Interest Rate Risk on Capital Market Instruments. • Equity Finance and Hybrids, Listings, Role of Stock Exchanges, Primary and Secondary Markets. £675 - 3 Days.
Contact: Fairplace, Tel: 0171 329 0595
LONDON

DECEMBER 12 - 16
Advanced Corporate Lending for Bankers
• Management Buyouts/ins, Acquisitions, Investment and Project Appraisal, "Off Balance Sheet" Transactions, Creative Accounting. • Structuring and Monitoring Complex and Syndicated Facilities, National Differences. • Managing a Lending Team. Danger Signals, Risk Adjusted Returns. £975 - 5 Days.
Contact: Fairplace, Tel: 0171 329 0595
LONDON

DECEMBER 13
Flexible Labour Markets
CBI conference considers 'who pays for training' in the new market conditions with an expert panel and case studies to identify the various issues.
Contact: Sandra Aldred, CBI Conferences
Tel: 071 379 7400
24 hr Fax-on-Demand: 071 240 1248
LONDON

DECEMBER 13
Advanced Documentary Credits and Trade Finance
An intensive one-day conference that looks at the key issues around UCP 500, focuses on Letters of Credit, EDI Bills of Lading and forfaiting, and reviews the treatment of fraud in documentary credit transactions.
Contact: Interforum Services Ltd
Tel: 44 71 386 9322
LONDON

DECEMBER 13
Rapid Iterative Development of Business Applications
Client/server Application Generation. A complimentary half day seminar presented by Sybase and TopSystems.
Guest speaker Henk Bakker Managing Editor of Ovum Ltd.
To register please call The Marketing Department on 081 332 2223.
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DECEMBER 13 & 14
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Highly participative training course *covering traditional FX and money markets* featuring WINDEAL (PC Windows based dealing simulation). For Corporate treasurers, bank dealers, marketing executives, financial controllers, systems and support personnel. £480 + V.A.T.
Lywood David International Ltd.
Tel: 0959 565820 Fax: 0959 565821
LONDON

DECEMBER 15
Business Opportunities in Scotland Conference
Sponsored by Edinburgh District Council, TSB, Arthur Andersen & McGrigor Donald and features Lord Thomson, Sir Ian Wood, Tom Farmer, Professor Donald Mackay. *Discusses prospects for economy* investment, energy, agriculture, manufacturing and services.
Details: Cityforum Ltd.
Tel: 01225 466744 Fax: 01225 442903
LONDON

DECEMBER 15
Signed, Sealed & Delivered
CBI conference provides *line managers* responsible for health and safety with comprehensive information on the background and consequences of the new provisions for pregnant workers and safety signs in the workplace.
Contact: Nicola Martin, CBI Conferences.
Tel: 071 379 7400. 24hr Fax-on-Demand: 071 240 1248
LONDON

DECEMBER 19-20
Compliance
An indepth look at regulation for all involved with compliance and investment business activity.
UK and European community policies and regulatory framework, bank regulation, money laundering, capital adequacy, companies and directors' responsibilities, creative accounting, misuse and abuse
£550 plus VAT
Contact: BPP Bank Training, Richard Capps
Tel: 0171 628 8444 Fax: 0171 628 7818
LONDON

JANUARY 11-12
Re-engineering for Growth
Practical workshop examining how we go beyond cost reduction to initiate genuine transformation. Explores proven re-engineering approaches that help create the capabilities, flexibility and learning culture required for sustainable growth and competitiveness. Facilitated by Rohit Talwar - an international authority on re-engineering.
Contact: The Centre for Business Transformation.
Tel: +44 (0)171-435 3570 (24 hours)
Fax: +44 (0)171-794 3568 (24 hours)
LONDON

JANUARY 17-18
Building a Learning Organisation
Practical tools, techniques and strategies for accelerating individual and organisational learning. Expert led workshop designed to help executives understand the challenges and explore how pragmatic approaches to learning can address critical problems and genuinely improve capability, performance and competitiveness. Repeated March 17-18.
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Tel: +44 (0)171-435 3570 (24 hours)
Fax: +44 (0)171-794 3568 (24 hours)
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JANUARY 18 - 20
Introduction to Derivatives
• *Background/Development of the* Derivatives Market. • OTC vs Exchange Traded Options. "Exotic" and Standard Currency Options Currency Swaps. • Role of Financial Futures, FRA,s, Interest Rate Options, Convertibles. • Managing a Lending Team, Danger Signals, Risk Adjusted Returns. £740 - 3 Days.
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LONDON

JANUARY 19 & 20
Securities Settlements
For those wishing to gain a good understanding of the settlements business. Detailed review of global custodian role, including settlement conventions international/domestic, bonds and equities, *Euroclear, Cedel, reports and controls*, rolling settlement and electronic book entry systems. £595 plus VAT.
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JANUARY 20
International Asset Allocation
Professionals involved in international investment management. Investor objectives will be analysed and the principles and techniques of asset allocation will be explained and evaluated. The importance of derivatives in the process will be examined plus strategic, tactical and synthetic asset allocation.
£325 plus VAT.
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Tel: 0171 628 8444 Fax: 0171 628 7818
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JANUARY 24 & 25
Re-engineering the I.T. Function:
Re-aligning I.T. culture, capabilities and skills to deliver radical business performance improvement.
An international two-day conference of leading experts and practitioners which explores the introduction of new strategies, development of new organisations and management structures to enable I.T. to play a key role in transforming the business.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
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JANUARY 24 & 25
Trading Precious Metals
This seminar examines the marketplaces for gold, silver, platinum and palladium. Understanding the markets will develop through three main areas, the physical specifications, interest bearing aspects and market prices. Spot markets, fixings, arbitrage, interest rates GOFO, hedging, speculation, futures. £595 plus VAT.
Contact: BPP Bank Training, Jonathon Rogers Tel: 0171 628 8444 Fax: 0171 628 7818.
LONDON

JANUARY 25-27
Digital Images '95
Europe's first major conference and exhibition on electronic photography, digital image capture, manipulation, storage, archiving, proofing and electronic delivery. Speakers from all over the world share their experience. There are also 36 special-interest sessions which may be booked individually.
Details: The Hammond Organisation
Tel: +44 81 943 9700
LONDON

FEBRUARY 1
How to Transform Your Company - Effective BPR
Organisations must approach the BPR decision with a clear understanding of the key stages leading to its *successful implementation*. Case studies will illustrate the benefits and possible pitfalls of BPR and speakers will consider the four key stages essential to effective BPR: process redesign; process implementation; change management; the role of IT.
Contact: Institute of Directors
Tel: 071 730 0022
LONDON

FEBRUARY 7
Practical Capital Tax Planning for the Advisers of High Net Worth Individuals
Key talks include: Inheritance Tax Planning; Variations; Capital Gains Tax Reliefs; Tax Planning for the Non UK Domicilary; Remittance Planning; Capital Gains Tax - Pre Sale of Flotation Mitigation Techniques, Pre March 1991 Trusts and; Revenue Clearance Applications.
Contact: Vicki Goffin, IBC Legal Studies and Services Limited. Tel: 071 637 4383 Fax: 071 631 3214.
LONDON

FEBRUARY 8
The Growing Business - Lessons for Entrepreneurs
This conference will examine the entrepreneurial approach to company development and will focus on four different aspects of managing a growing business: raising the finance; finding the right people; presenting your company and yourself; making the quantum leap and second generation products.
Contact: Institute of Directors
Tel: 071 730 0022
LONDON

FEBRUARY 13 & 14
Death and Taxes in Europe
This conference is about identifying the problems and solving them when planning for cross-border estates. Key topics include: heirship problems; Using offshore companies and foundations and Finding the optimum death duty haven.
Contact: Evie Kinane, IBC Legal Studies and Services Limited. Tel: 071 637 4383 Fax: 071 631 3214.
LONDON

FEBRUARY 20 - 21
Business Process Re-engineering (BPR)
Leading seminar series on Business Process Re-engineering. Enhanced 1995 programme includes new sections on self-managed teams and radical BPR. Coaching style of presentation. Based on 150 successful BPR projects. 60 organisations in the private & public sectors attended in 1994. Repeated March 20-21.
Contact: Richard Parris, Vertical Systems Intercede Ltd. Tel: 01455-250266 Fax: +44 1455-890821
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FEBRUARY 21 & 22
Insuring the Railways
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Contact: Claire Dexter, The Waterfront Conference Company. *Tel: 0171 730 0430* Fax: 0171 730 0460.
LONDON

FEBRUARY 22-23
Pay Appraisal and Career Development
A practical guide to the latest techniques for achieving excellent employee performance in the delayered organisation. This important two-day conference explores how to radically improve your business performance by linking individual targets to corporate objectives through effective reward, appraisal and motivation systems.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
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FEBRUARY 23
Institute of Directors
The IoD Lecture entitled *Europe and Regulation - The New Totalitarianism* is being given by journalist and author, Christopher Booker who has attracted a wide following for his reporting on the damage being inflicted by bureaucracy on every type of business. Christopher Booker's campaign against the rise in the impact of deregulation and bureaucracy had exercised a significant influence on public debate.
Contact: Institute of Directors: 071 730 0022
LONDON

FEBRUARY 24
After Paramount - The Impact of the House of Lord's Decision
This conference will cover the following issues: Employees after Paramount; Consequences for Insolvency Professionals; The. Practical Effects; Receivership and Administration Expenses; Liabilities for interfering with Contracts and Personal Liability.
Contact: Sarah Avian, IBC Legal Studies *and Services Limited. Tel: 071 637 4383* Fax: 071 631 3214
LONDON

FEBRUARY 28 - MARCH 1
CTI and Beyond
As the worlds of computing and telephony move ever closer, Computer Telephone Integration is becoming relevant to almost every organisation. This seminar includes case studies of users of CTI technology, and overview of the technology and future of CTI, and examinations of CTI implementation and products.
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FEBRUARY 28
Buying and Selling Private Companies - a Practical Framework for Success
This one-day conference has been designed to give both the buyer and seller a practical framework for planning and legally completing deals successfully. Case studies will be presented by a buyer and a seller to provide first-hand experience and insight into problems involved and how to solve them.
Contact: Institute of Directors: 071 730 0022
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FEBRUARY 28 - MARCH 1
Trawling the Internet: The Commercial Impact and Opportunities
A timely overview outlining the benefits of Internet services to the professional and commercial organisation. Users and vendors of Iternet products and services, politicians, computer multinationals explain their strategy and vision of the future.
Contact Unicom Seminars, 0895 256 484, fax: 0895 813 095
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MARCH 2 & 3
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APRIL 26-27
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Executives in the financial industry involved in planning, organising and *directing financial instruments in banking* and treasury departments. Developing new financial products; Trading in derivatives; Controlling exposure and risk; Developing the technology to support derivatives.
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Contact: BPP Bank Training, *Hilary Jackson*
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INTERNATIONAL

FEBRUARY 2-3
International Anti-Money Laundering Forum
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MARCH 20-22
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Thomson *Bankwatch, Inc.* leader in *global* bank risk analysis, is running a series of credit training workshops in Frankfurt. Topics being covered are: Fundamentals of Sovereign Risk Analysis, Techniques of Bank Credit Analysis, and a Survey of OECD Banks and Systems.
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CONFERENCES

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For a full conference programme, please contact:
Suter + Suter Pharma,
Mr. Marcel Hug. P.O.B. 632,
CH-4010 Basel,
phone ++41 61 275 75 58,
fax ++41 61 275 74 74.

LEGAL NOTICES

No. 007861 of 1994

IN THE HIGH COURT OF JUSTICE
CHANCERY DIVISION

IN THE MATTER OF
MICHAEL SAMUELSON LIGHTING LIMITED
-and-
IN THE MATTER OF
THE COMPANIES ACT 1985

Notice is hereby given that a Petition was on 1st November 1994 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the capital of the above named Company from £2,250,100 to £610,234.

And Notice is further given that the said Petition is directed to be heard before Mr Registrar Buckley at The Royal Courts of Justice, Strand, London WC2A 2LL, on Wednesday the 14th of December 1994.

And any Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital should appear at the time of the hearing in person or by Counsel for that purpose. A copy of the said Petition will be furnished to any such person requiring the same by the under mentioned solicitors on payment of the regulated charge for the same.

Dated this 5th day of December 1994

Nabarro Nathanson
50 Stratton Street
London W1X 6NX

Tel: 071-493 9933
Ref 1A/CKG/S1995/b

Solicitors for the above named Company

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مكرر من الاصل

FINANCIAL TIMES
MARKETS
THIS WEEK

Global Investor / **John Plender**

Playing ball with Steady Eddie

The one thing on which there appears to be complete consensus after the UK Budget last week is that the recent hard-won improvement in the public finances will be thrown away before the next election.

It is not just that the record of Mr Kenneth Clarke's predecessors continues to dog him as he vainly protests that there will be no return to boom or bust economics.

His overtly political approach to the chancellor's job leaves the impression that he simply itches to bribe the voters with their own money in 12 months' time. A fiscal credibility gap yawns beneath him.

Yet if the markets have delivered a lesson in 1994 it is that a consensus tends to form just as the flaws in the argument are about to emerge. The message is reinforced by the thought that Mr Clarke has heard the argument so often that he would be stunningly naive not to aim off for the likely consequences. The greater risk may lie in accident rather than in Machiavellian design.

Lord Lawson's mistakes, after all, stemmed largely from a genuine misreading of the economic cycle. Where might the pundits have gone wrong?

One obvious potential flaw in the case is that Mr Eddie George, the Governor of the Bank of England, now wields real countervailing power, thanks to the chancellor's own decision to publish the minutes of their regular meetings. Mr George might thus be able to press Mr Clarke into compensating for fiscal laxity with monetary tightening.

This would prevent an inflationary boom at the cost of an overvalued exchange rate and a deteriorating current account. We would then have a British version of Reagonomics, in which the Governor filled Mr Paul Volcker's shoes.

The difficulty with this is not just that it seems counter-intuitive, historically, to talk of sterling strength when the economy is booming. It would also be asking a great deal of the Governor. He would, of course, justify his actions by reference to inflationary threats rather than fiscal policy as such. Yet he might nonetheless be perceived by many to be undermining the actions of an elected politician and senior member of the cabinet.

Even a *fully independent* central banker would not contemplate that lightly, especially before an election. Would the markets come to his aid by delivering an old-fashioned sterling crisis to create the conditions for more prudent policymaking?

It is not difficult to put a case that the British economic recovery is built on unstable financial foundations. With *North Sea oil running down*, the current account has not been in surplus since 1985, while long-term capital outflows have grown remarkably (see chart).

When the current account deficit and the long-term flows are put together in what used to be known as the basic balance, a picture emerges of huge portfolio outflows, financed by short-term inflows.

The extent to which British investors have been acting as long-term bankers to the rest of the world becomes apparent in the second chart, which contains the stunning statistic that Britain emerged as a bigger exporter of portfolio capital in 1993 than Japan.

The position would have looked even more unstable were it not for the support of US portfolio investors, who *raised their purchases of UK* equities from £37bn to £49bn last year. In short, the chancellor is hostage to foreign financiers to a quite extraordinary degree. How long will he be able to maintain confidence in sterling?

Quite possibly for longer than he may deserve, because the figures are improving miraculously. The Treasury is forecasting, not implausibly, that the current account deficit will shrink from £10.5bn in 1993 to only £4bn in 1994 and £3.5bn in 1995.

As for long-term capital flows, last year's figures look, with hindsight, increasingly freakish. In the first half of 1994 the net portfolio outflow was transformed into an inflow of £29bn, chiefly because of repatriation of funds by domestic investors.

Yet this, too, looks freakish in the other direction. It is the first time since the last quarter of 1987, which saw the October stock market crash, that UK investors have repatriated funds. The more normal pattern is for long-term outflows *to accompany current account* deficits. What grounds are there for thinking that the future will be any different?

Capital flows are notoriously awkward to predict. But if Britain's increasingly mature pension funds respond to the decline in their cash flow and to new minimum solvency requirements by selling overseas equities in exchange and more boring gilts, the capital account may become more stable.

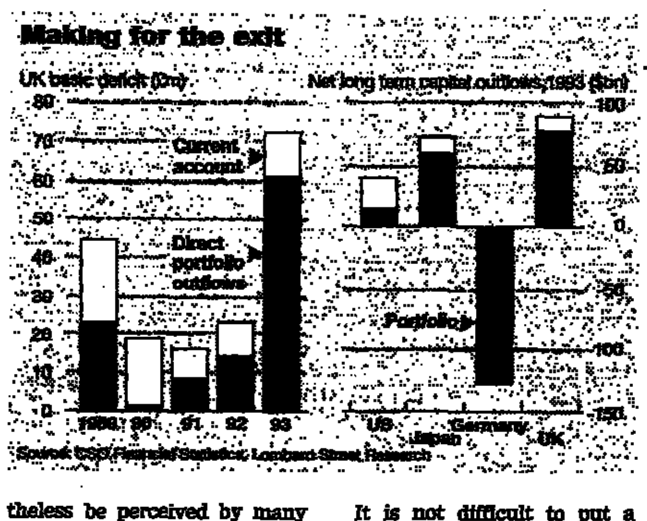
Yet there are some, including Frank Russell, the pension consultants, who argue that UK funds should diversify not less but more overseas, to reduce their 60 per cent over-exposure to a single volatile asset class, UK equities.

Then there is the likelihood that US mutual funds will sell UK equities as American investors return funds to the banking system or to higher yielding bonds. Or, again, the possibility that US pension funds, like the big Japanese insurers, will lose their appetite for global diversification.

Yet the real joker in the pack may not be sterling but Mr Clarke. If he has concluded that one more boom and bust would finish both him and his party, he might just deliver a well-judged budgetary package that keeps both his fellow Tories and the markets at bay. And he may play ball with *Steady Eddie* because the ageing of the population has changed the politics of higher interest rates: Ken the pensioner's friend.

This is not the consensus wisdom. But the odds on it look consolingly better than the National Lottery.

Making for the exit



Total return in local currency to 1/12/94

	US	Japan	Germany	France	Italy	UK
	% change over period					
Cash						
Week	0.11	0.04	0.09	0.10	0.18	0.10
Month	0.42	0.19	0.41	0.45	0.70	0.46
Year	3.69	1.88	6.31	5.81	8.75	5.13
Bonds 3-5 year						
Week	-0.40	0.07	0.03	0.28	0.63	-0.28
Month	-0.39	0.98	1.05	1.55	1.87	1.21
Year	-2.84	-1.32	-0.86	0.30	4.24	-0.22
Bonds 7-10 year						
Week	0.31	-0.04	-0.09	0.36	0.68	-0.14
Month	0.16	0.90	1.92	2.95	1.65	1.88
Year	-8.22	-2.92	-3.05	-5.07	-1.15	-4.04
Equities						
Week	-0.2	2.6	-0.8	1.4	1.0	0.0
Month	-3.7	-3.4	-0.9	-3.2	-1.5	-1.4
Year	0.5	5.5	-3.0	-4.6	18.6	-2.0

Source: Cash & Bonds - Lehman Brothers. Equities - © NatWest Securities. The FT-Actuaries World Indices are jointly owned by The Financial Times Limited, Goldman Sachs & Co. and NatWest Securities Limited.

Economic Eye / **Martin Wolf**

Myth of empty sovereignty

In France "the notion of the unsurrenderable sovereignty of the 'Etat nation' still carries weight, although this sovereignty has long since become an empty shell." Thus did Mr Karl Lamers, writing for the Christian Democratic Union in a paper published just before the German parliamentary elections, condemn French hesitation in taking concrete steps towards "the goal of a strong and integrated Europe capable of effective action." In a subsequent article for the FT (November 7), he extended this assessment to all European states.

The view that sovereignty is empty has become a cliché in the debate on Europe's future. Yet it is nonsense. French sovereignty is not empty, if by sovereignty is meant the ability to pass laws conducive to the prosperity of the people. Nor is this true only for a large country like France. The fallacy is the identification of sovereignty with power. The ruins of the Soviet empire are testimony to the extent of this mistake. The search for the omnipotent state proved a sure route to its collapse.

It is true that sovereignty may also depend on a state's *ability to sustain political* independence. This century has demonstrated that very few countries are securely *sovereign in this sense*, perhaps the US alone. But this does not mean that all the others are economically impotent. To assume this is to confuse international economic transactions with war.

Needless to say, this mercantilist viewpoint is not restricted to Germany. Listen to Elisabeth Guigou, formidably able French minister for European affairs during the negotiation of the Maastricht treaty. She writes, in a book which contains a position on European affairs close to that of Mr Lamers, that "divided, Europe would more than ever be the prey of the big economic powers".* A European crisis would "leave each country alone to face the American and Japanese mastodons".

To understand why such fears are mistaken, one must turn one's gaze from Europe to the other end of Eurasia. There we find a long-united colossus around whose periphery hang three insular economies and a politically-divided peninsular. The populations of these four vary in size from 10 *per cent of their neighbour's* to less than 0.5 per cent. For decades, all four were forced to look to world markets for *economic opportunities*. In doing so, they found themselves confronting tariffs, discriminatory quantitative restrictions and arbitrary "anti-dumping" provisions.

Here then must be the hapless prey of which Mme Guigou writes. But one of them is, of course, Japan, the others being South Korea, Taiwan and Hong Kong. Consider defenceless, free-trading Hong Kong, with its tiny population of 6m. It has, according to the World Bank, attained a real income per head greater than French or British levels and more than 10 times higher than mainland China's. Its economy also grew at an average rate of 6.7 per cent between 1980 and 1992. But many other economies in the east Asian region, both large and small, matched or surpassed this achievement.

Large *and* small, that is the point. Look at the table, which lists the world's 12 largest countries by population (with the European Union included as one country). Are big, politically powerful countries also *rich ones? The US is, as are* the EU and Japan. But take a look at China, India, Russia or Pakistan. Have big countries enjoyed high rates of economic growth? Not necessarily. On the whole, poor economies grew more quickly than rich ones, because of the opportunity to catch up. But even this rule is not infallible, as the Nigerian and Mexican disasters demonstrate.

Adam Smith argued cogently that free trade gives a country the same opportunities as membership of a great empire. It fails to do so only if all significant economies are rigorously protectionist. Then, indeed, it would be necessary at least to be part of a trading bloc. There is, therefore, a self-justifying prophecy implicit in the fears of those *who advocate such blocs*.

Happily, this is not the world we live in. Many of the most successful economies *have, like Singapore, neither* had large populations nor been part of trading blocs. They have, instead, exploited opportunities for global trade in what has proved to be an adequately open and competitive world market.

To understand why this has worked it is necessary to appreciate how governments are able to promote the prosperity of their people. This is admirably explained in a book by Professor Russell Roberts of Washington University in St Louis, by use of an imaginary dialogue between a television manufacturer and David Ricardo, inventor of the theory of comparative advantage.**

What then is the secret of wealth, according to the professor's David Ricardo? It is to "use your resources wisely. By resources, I don't just mean the traditional natural resources of fertile land, oil and minerals, but the know-how, education, ingenuity and drive of the people. Using your resources wisely means giving the people the incentive to work hard and the incentives to innovate, to take risks".

The EU can do this, but so can (and have) Switzerland and Hong Kong. The economic value of the EU to its members is not that, without it, the economies of member states would be trampled underfoot by giants. It does not depend on its being huge, but rather on its ability to induce members to exercise sovereignty more wisely than they would outside it. Unless this is clearly understood, the EU, for all its size, is doomed to poor performance.

* *Elisabeth Guigou, Pour les Européens (Flammarion, 1994);*
** *Russell D Roberts, The Choice: a Fable of Free Trade and Protectionism (Englewood Cliffs, New Jersey: Prentice Hall, 1994).*

How size fails to ensure wealth

Population (million) (1992)		GDP per head 1992 ($)	GDP growth 1980-92 (annual average % growth)
1,162	China	470	9.1
[illegible]	[illegible]	[illegible]	[illegible]
347	EU	20,774	2.2
[illegible]	[illegible]	[illegible]	[illegible]
184	Indonesia	670	5.7
[illegible]	[illegible]	[illegible]	[illegible]
149	Russia	2,510	-
[illegible]	[illegible]	[illegible]	[illegible]
119	Pakistan	420	6.1
[illegible]	[illegible]	[illegible]	[illegible]
102	Nigeria	320	2.3
85	Mexico	3,470	1.5

Source: World Bank, Eurostat

COMMODITIES — Richard Mooney

Nickel in the LME spotlight

When business starts at the London Metal Exchange this morning Russia will be uppermost in many traders minds; and more particularly the north Siberian town of Norilsk, site of the world's biggest nickel refinery.

It was concern about output losses following an explosion early last month at the power plant supplying this refinery that was largely responsible for last week's 19 per cent surge in the exchange's nickel prices. And the general situation at Norilsk, faced with daunting financial and technical problems, is giving rise to serious doubts about the plant's ability to maintain production at last year's level of about 140,000 tonnes even if its power supply gets back to normal quickly.

Norilsk needed "a huge amount of capital and there is no sign that it is getting any", said Mr David Allen, vice president for public and government affairs at Inco of Canada, last week.

Inco signed a technical assistance protocol with Norilsk last year, but Mr Allen said it was "very difficult to conduct relations with them. . . they have shown no interest".

The company was so short of money, he stated, that it was failing to pay its workforce for weeks on end and was being forced to cannibalise equipment to keep going.

LME traders told the Reuters news agency on Friday that the three months delivery nickel price, which closed at $8,952.50 a tonne, should clear $9,000 easily and did not think $10,000 was an unreasonable target in the medium term.

There will also be interest at the exchange to see whether or *not copper, its flagship contract*, can continue the upsurge that was resumed last week. A $116 rise on the week took the three months position to a four-year peak of $2,943 a tonne at Friday's close. Traders said the next resistance level was at $2,975 with $3,000 the main target.

"There have been quite a lot of financial institutions looking to buy into the market," one told Reuters.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Ltd., Goldman, Sachs & Co. and NatWest Securities Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY DECEMBER 2 1994 US Dollar Index	% chg since 31/12/93	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 31/12/93	Gross Div. Yield	THURSDAY DECEMBER 1 1994 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (68)	167.54	0.4	158.25	106.33	137.44	144.78	-11.5	3.97	168.99	159.87	106.12	138.13	146.31	189.15	153.99	153.99
Austria (16)	177.05	-4.3	168.29	112.36	145.23	145.44	-12.7	1.12	177.12	167.56	111.22	144.77	144.73	198.89	167.46	175.12
Belgium (35)	167.80	3.0	159.30	106.36	137.46	134.16	-7.5	4.12	167.71	158.66	105.31	137.08	133.67	177.04	154.89	154.89
Brazil (28)	165.79	-	157.58	105.22	135.99	281.68	-	0.79	172.74	163.42	108.47	141.19	270.27	-	-	-
Canada (103)	128.35	-5.5	122.00	81.46	105.29	127.54	-2.0	2.69	127.67	120.78	80.17	104.35	127.13	145.31	120.54	132.75
Denmark (33)	242.97	-1.7	230.94	154.20	199.30	203.81	-10.8	1.46	244.76	231.55	153.69	200.06	204.79	275.79	239.01	239.01
Finland (24)	179.70	45.9	170.80	114.04	147.40	184.40	23.1	0.76	180.93	171.17	113.62	147.89	184.95	201.41	116.85	121.34
France (102)	168.68	-4.1	160.33	107.05	138.36	143.24	-12.1	2.99	168.20	159.12	105.62	137.48	142.22	185.37	159.34	165.40
Germany (58)	136.86	-2.4	130.08	86.86	112.26	112.26	-11.3	1.84	137.74	130.31	86.49	112.58	112.58	150.40	128.37	133.11
Hong Kong (58)	327.43	-33.1	311.22	207.80	268.59	325.29	-33.0	3.81	336.52	318.37	211.32	275.07	334.14	506.56	327.43	377.59
Ireland (14)	198.33	7.1	188.51	125.87	162.69	182.04	-1.7	3.50	200.31	189.50	125.78	163.73	183.34	216.80	176.63	178.90
Italy (59)	74.46	8.6	70.78	47.26	61.08	90.03	2.7	1.75	74.91	70.87	47.04	61.23	90.39	97.78	60.17	60.17
Japan (468)	151.99	16.5	144.47	96.46	124.68	96.46	5.1	0.80	153.96	145.66	96.68	125.85	96.66	170.10	127.18	135.80
Malaysia (97)	479.07	-19.0	455.36	304.04	392.98	472.08	-23.1	1.86	488.09	461.78	306.50	398.96	480.57	621.63	430.71	490.77
Mexico (18)	2076.97	-13.0	1974.12	1318.13	1703.69	7806.06	-3.7	1.31	2123.04	2008.47	1333.14	1735.30	7986.15	2647.08	1696.28	2068.23
Netherland (19)	209.94	5.4	199.55	133.24	172.21	168.19	-4.1	3.41	209.71	198.40	131.69	171.42	168.46	223.30	191.28	191.42
New Zealand (14)	71.32	8.0	67.79	45.27	58.51	60.09	-6.8	4.87	72.74	68.81	45.67	59.45	61.31	77.59	62.05	63.10
Norway (23)	202.94	13.0	192.89	128.79	166.47	189.02	3.1	1.76	199.96	189.17	125.56	163.44	185.59	211.74	168.11	170.24
Singapore (44)	358.96	-2.3	341.21	227.82	294.47	243.46	-10.7	1.76	368.02	348.11	231.72	301.63	249.04	401.38	294.66	319.42
South Africa (59)	325.48	21.8	309.38	206.56	266.99	292.42	16.7	2.24	323.01	305.58	202.83	264.01	289.69	342.00	205.55	223.31
Spain (39)	139.64	0.2	132.73	88.62	114.55	139.27	-7.7	4.10	139.38	131.86	87.52	113.92	138.52	165.79	132.22	132.22
Sweden (36)	231.50	17.9	220.04	146.92	189.90	257.97	6.5	1.55	233.10	220.52	146.37	190.53	260.18	242.61	183.23	183.37
Switzerland (47)	159.09	-0.7	151.22	100.97	130.50	131.23	-11.0	1.86	159.35	150.75	100.06	130.24	131.34	178.56	149.91	150.22
Thailand (46)	155.10	-	147.43	98.44	127.23	160.92	-	2.43	159.67	151.05	100.26	130.51	155.23	-	-	-
United Kingdom (204)	191.17	-6.8	181.71	121.33	156.82	181.71	-11.6	4.25	193.48	183.04	121.50	158.15	183.04	214.96	181.11	193.66
USA (513)	185.42	-2.4	176.24	117.67	152.10	185.42	-2.4	2.86	183.74	173.83	115.38	150.18	183.74	196.04	178.95	188.59
Americas (662)	173.35	-	164.77	110.02	142.20	144.16	-	2.88	172.05	162.77	108.04	140.63	143.08	-	-	-
Europe (708)	166.48	-1.2	158.24	105.66	136.56	149.86	-9.2	3.13	167.42	158.38	105.13	136.84	150.19	178.56	159.95	159.95
Nordic (116)	220.91	16.6	209.97	140.20	181.21	210.59	4.3	1.40	222.14	210.15	139.49	181.57	211.65	233.91	179.06	179.13
Pacific Basin (793)	159.66	10.1	151.75	101.33	130.97	105.51	-0.3	1.18	161.92	153.18	101.68	132.35	106.05	176.86	141.04	145.56
Euro-Pacific (1501)	162.42	4.8	154.38	103.08	133.23	123.01	-4.2	2.02	164.12	155.26	103.06	134.15	123.48	175.14	150.97	151.40
North America (616)	181.88	-2.4	172.87	115.43	149.19	181.44	-2.3	2.95	180.26	170.53	113.19	147.34	179.84	192.73	175.67	185.12
Europe Ex. UK (504)	149.50	1.3	142.10	94.88	122.63	130.62	-7.7	2.48	149.78	141.70	94.05	122.43	130.50	158.12	138.94	138.94
Pacific Ex. Japan (325)	235.81	-17.8	224.14	149.66	193.43	207.23	-22.4	3.22	240.62	227.64	151.10	196.68	211.38	296.21	232.59	239.16
World Ex. US (1709)	164.33	4.5	156.19	104.29	134.79	126.63	-3.9	2.09	165.99	157.03	104.23	135.67	127.15	178.66	152.65	152.84
World Ex. UK (2018)	168.28	2.7	159.95	106.80	138.04	141.02	-2.5	2.15	168.69	159.59	105.93	137.88	140.83	178.59	160.94	160.94
World Ex. Japan (1754)	181.89	-3.1	172.88	115.43	149.20	173.18	-6.3	2.98	181.79	171.98	114.15	148.59	172.89	195.20	178.34	180.18
The World Index (2222)	170.31	1.9	161.87	108.08	139.70	144.71	-3.4	2.35	170.68	161.66	107.30	139.67	144.64	180.80	163.80	163.80

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local); Nordic: Dec 30, 1988 = 139.65 (US $ Index), 114.45 (Pound Sterling) and 123.22 (Local); Brazil, Thailand and Americas: Oct 31, 1994 = 180.44 (US $ Index), 164.07 (Pound Sterling) and 149.94 (Local). Constituent change with effect 7/12/94: Addition: McKesson Corp. (New) (USA).

WORLD BOND MARKETS: This Week

NEW YORK
Patrick Harverson

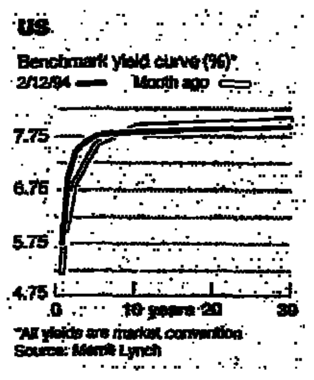
The US Treasury market is likely to remain on the same path it pursued last week, a path that led to a further flattening in the yield curve as investors prefaced trouble for the economy and further interest rate increases ahead.

Last Friday's remarkable gains at the long end of the maturity range narrowed the spread between two-year and 30-year yields to less than 50 basis points, half what it was less than a month ago.

The curve has been rapidly flattening as investors have bought long-term Treasuries in the belief that the economy will start to slow down next year and thus restrain any inflationary pressures in the system.

The next interest rate increase, in fact, could come a few days before Christmas. Last week's exceptionally strong third-quarter gross domestic product and November employment data indicated that the economy is growing at a faster rate than the Fed wants. Several analysts now predict that the central bank will raise rates again after the December 20 meeting of the Fed's open market committee.

Prices should not move sharply in any direction this week given the lack of key economic releases. Only today's motor vehicle sales figures for November and single-family home sales for October are likely to generate any reaction.



*All yields are market convention
Source: Merrill Lynch

LONDON
Gillian Tett

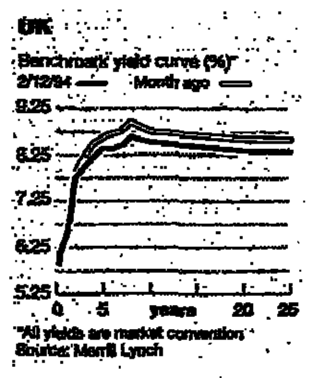
Attention in the gilt markets this week will focus on the timing of the next UK base rate rise. With few major events expected, domestic factors are likely to drive gilt movements.

Mr Kenneth Clarke, UK chancellor, and Mr Eddie George, governor of the Bank of England, hold their regular monthly monetary meeting on Wednesday. Expectations have risen that rates will be raised at this meeting. But many economists suspect that a rise is more likely to be delayed until January.

Mr Ian Shepherdson, of Midland Global Markets says: "The politics of putting up interest rates just before Christmas are very awkward. Also I can't believe that the Bank would want to imply that it did not approve of the last budget."

Ms Katy Peters of Daiwa also believes a rate rise is less likely this month. As she says: "The budget's inflation forecast means there will have to be some quite aggressive tightening. But I think the markets have already priced in a move."

Meanwhile, Wednesday's auction of 10-year gilts will be watched closely for indications of the level of gilt demand. Today's figures on November's M0, the narrowest measure of money supply, are not expected to have much impact although many economists expect them to show the annual growth rate has slowed.



*All yields are market convention
Source: Merrill Lynch

FRANKFURT
Andrew Fisher

As pressure grows in the US for a further interest rate rise after the latest employment figures, German economists continue to argue over whether the Bundesbank will produce a further rate cut in the present economic cycle before heading upwards again.

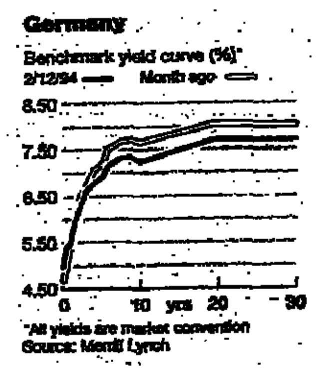
This week's crop of indicators, including third-quarter GDP, manufacturing orders for October and unemployment in November, are likely to show that the German economy continues to be fairly robust after this year's recovery.

Since the Bundesbank is known to be concerned about gathering inflationary pressures as industry's capacity utilisation continues to grow, a further interest rate cut is unlikely at Thursday's central bank council meeting.

"The Bundesbank will not ease further in this interest rate cycle," said Mr Günther Thumann, economist at Salomon Brothers, categorically.

Among those ranged alongside him are Goldman Sachs, Bayerische Vereinsbank and Industrial Bank of Japan. The Bundesbank, however, has tried to keep the bond market calm by suggesting that the next move could be either way.

So far, this has worked reasonably well. In two weeks' time, however, all eyes will be on the Bundesbank again when it sets the M3 target range for 1995 and thus gives a clue to its monetary intentions.



*All yields are market convention
Source: Merrill Lynch

TOKYO
Conner Middelmann

Japanese government bonds ended little changed last week; while the JGB futures contract was up slightly on the previous Friday, the yield on the 10-year benchmark bond remained steady at 4.64 per cent.

Early this week, the market is likely to be dominated by Friday's developments in the currency markets, when the US dollar broke key resistance against the Japanese currency at Y100 to the dollar.

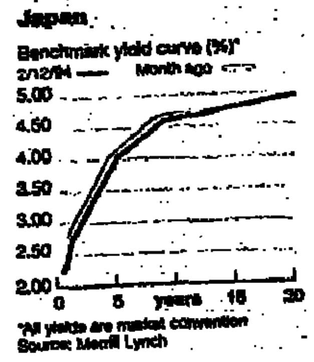
The dollar's gains were fuelled by stronger than expected US employment data, which revived speculation that the US Federal Reserve may soon raise interest rates again.

Later in the week, attention will turn to Friday's release of the Bank of Japan's quarterly Tankan survey on economic sentiment.

Analysts expect it to show a marked improvement in business sentiment for the period from August to November and to confirm signs of continuing economic recovery.

"Previous cycles suggest that when the Japanese economy improves, it does so quite sharply," said Mr Eric Fishwick, an economist at IBJ International in London.

Friday's release of third-quarter gross domestic product data also provided evidence of steady growth, showing a 3.7 per cent annualised quarter-on-quarter gain, and accompanied by a chunky upward revision to the second-quarter GDP number.



*All yields are market convention
Source: Merrill Lynch

Russian bonds

Moves to woo investors in MinFin bonds

Moves to bring greater stability to trade in Russian hard currency bonds could increase western investment in a market overshadowed recently by publicity surrounding the spectacular performance and potential of some local equities.

On Tuesday, Banque Indosuez and Morgan Grenfell – along with a number of Russian banks and other traders – formed a new traders' association which will aim to make the market for dollar-denominated "MinFin" bonds more "investor-friendly".

In 1993, the ministry of finance issued more than $7bn of the bonds – the country's largest hard currency issue – to Russians whose dollar bank deposits were frozen during 1991's foreign exchange crisis.

Although only $100m to $300m of the paper is currently in the hands of overseas investors, they could become popular alternatives to the other two main classes of Russian debt, which are more widely held by European and US investors: $1.9bn of fixed interest eurobonds, primarily denominated in Deutschemarks, and $26.5bn in commercial debt paper currently trading at a steep discount in the secondary market.

Trading in the five tranches of the MinFin bonds only really began this year, with investors encouraged by the government's redemption of the first tranche of some $266m in May.

With the remaining tranches trading at between 75 per cent of face value for the shortest dated bonds to 30 per cent for the longest dated, potential returns are attractive.

Based on a standard 3 per cent coupon, yields to maturity are roughly 15 to 23 per cent. Daily volumes reached $100m at the end of the summer, rising sharply following the drop in the rouble in October and the accompanying increase in demand for dollar assets.

Market expansion, however, has not been without its difficulties and in recent weeks trading volumes have been as low as $15m a day.

"Events have often pushed investors to the sidelines, creating frustrating illiquidity and exacerbating price shifts," said Banque Indosuez.

Traders say that lack of liquidity has created additional problems for investors because a single large trade can influence the entire market.

"Western institutions and investors are quite wary of market manipulation. Investors are aware of the risks but they worry about the lack of transparency," says Mr John Gibbens of Morgan Grenfell.

In particular, custody and settlement arrangements have left something to be desired. The bonds are one of the few merging market issues for which clearing must be done in the country of issue.

Although traders insist that settlement procedures are far better than those in the local equity markets, this year's increase in activity put the system under some strain.

The new traders' association, whose founding members also include BCEN-Eurobank of Paris, ICFI-Moscow Partners, Aljba Alliance, New Alliance Corporation, Moscow Narodny and Vneshtorgbank, aims to tackle these problems by establishing clearly defined settlement procedures and market practices. Much of its work will be along similar lines to that of the New York-based Emerging Markets Traders Association, to which it is affiliated.

In any event, traders argue that the MinFin bonds are better value than either the eurobonds – which have been trading recently at more than 80 per cent of face value – or the commercial bank debt.

While unpaid interest continues to accumulate on the commercial debt, investors in MinFin bonds enjoy the benefit of regular interest payments – so the paper has a lower "carrying" cost.

Ultimately, investors will be influenced by Russia's efforts to reschedule its commercial debt, which would involve a resumption of debt service payments and the probable conversion of overdue interest into a new bond issue.

Success would be certain to increase demand for paper currently trading at 31 to 32 per cent of face value on the secondary market, possibly to more than 50 per cent.

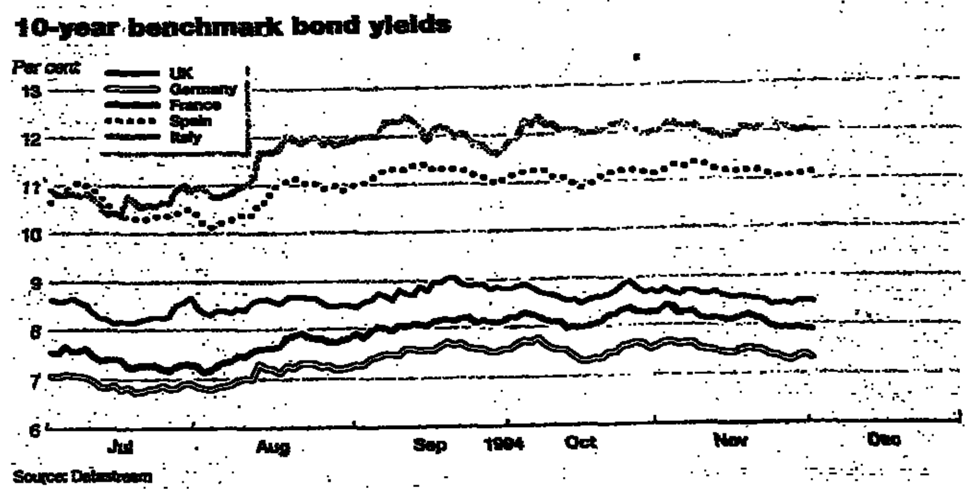
Despite allegations in some quarters of a lack of political will to achieve an agreement, there has been progress in recent weeks. In a research note published last month, Mr Daniel McGovern, fixed income strategist at Merrill Lynch, said he expected an agreement within three to four months.

Mr McGovern, formerly chief economist to Russia's creditor banks' advisory committee, believes Russia's ability to service this agreement is quite strong. "The nascent growth in the real economy, a solid macro-economic adjustment programme for 1995, and large hard currency earnings underscore Russia's shift towards economic recovery," he says.

However, many dealers are sceptical. Following recent reports of talks, one trader said: "The market is getting a bit jaundiced." Another told Reuters: "I'm cynical ... We've seen too many false starts." For them MinFin bonds – relatively well insulated from Russia's stormy political process – may represent a better bet.

Richard Lapper

10-year benchmark bond yields



Source: Datastream

INTEREST RATES AT A GLANCE

	USA	Japan	Germany	France	Italy	UK
Discount	4.75	1.75	4.50	6.40'	7.50	5.75†
Overnight	5.44	2.22	5.00	5.28	8.00	4.13
Three month	5.78	2.31	5.18	5.50	8.60	6.18
One year	7.01	2.52	5.56	6.13	9.62	7.43
Five year	7.76	3.91	6.92	7.44	11.62	8.41
Ten year	7.86	4.52	7.29	7.81	11.92	8.60

(†) France-Repo rate. (‡) UK-Base rate. Source: Reuters.

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	98-16	99-15	+1-03	99-18	97-30	29,847	184,328
Mar	97-28	98-27	+1-04	98-30	97-01	296,819	243,338
Jun	97-03	98-13	+1-04	98-14	99-24	542	12,169

International

Short-dated dollar paper in demand

Just when it seemed safe to wind down for Christmas, the eurobond market – and especially its dollar sector – last week saw a burst of primary activity.

What's more, many expect issuance to continue flowing in the next few weeks, buoyed by retail demand for high coupons on short-dated dollar paper, investors increasing their dollar exposure, borrowers seeking to complete funding programmes before the year-end and underwriters keen on boosting their standing in the industry's league tables.

"There has been a strong trend all this year, a strong bid for short-dated dollar paper, and this is likely to last for the remainder of 1994 and into next year," said Mr Stephen West, a managing director at Swiss Bank Corporation. "A lot of money in Europe is held in dollars on a long-term structural basis and this year that has been directed towards the short-end of the yield curve."

Most of last week's rush of dollar deals – 26 issues totalling $6.1bn – was driven by demand from retail investors attracted by the coupons on short-dated US paper which, at close to 8 per cent, are high by historical standards.

Following the Federal Reserve's rise in official US interest rates on November 15, and in anticipation of further tightening, US short-term rates have increased sharply.

"Short dollar rates have risen dramatically in recent weeks and eurobond coupons between 7¾ and 8 per cent for two and three-year paper look very attractive," says Mr Denis Kelleher, head of debt syndication at Daiwa Europe, who has seen especially strong demand for short-dated dollar paper from Switzerland.

Given the dramatic yield-curve flattening that has taken place in recent weeks, "there is now not a lot of value in the 10-year sector, and many investors have been moving shorter along the curve, with demand concentrated between two and five years", he says.

However, some investors have ventured further out along the yield curve amid growing confidence that US inflation will remain under control and that the dollar will strengthen.

Much of the retail demand this year has been driven by redemptions and interest payments, which have released a large pool of dollars to be reinvested. November saw some $8bn in global bond and eurobond redemptions and a further $2.6bn in coupon payments; in December another $9bn in redemptions and interest payments falls due.

Moreover, some investors have started reducing their cash positions and are cautiously returning to the bond markets.

Currency considerations are also boosting investors' appetite for dollar bonds. There is a growing belief that the US currency will appreciate next year after its disappointing performance in 1994.

"A number of investors have been underweight in the dollar this year, but they are beginning to adjust their weightings in favour of the dollar," says Mr Roger Bates, director of bond syndicate at Deutsche Bank London.

Favourable swap opportunities have also lured borrowers to the short-end of the yield curve. These have arisen due to strong demand for fixed-rate assets inspired by a view among many borrowers that US interest rates are set to rise further. This has enabled many borrowers to raise fixed-rate funds and swap them for floating-rate liabilities at a rate significantly below Libor.

Another factor behind the recent issuance boom lies in the fierce competition among bond underwriting houses to secure a top position in the industry's league tables as the year-end approaches.

"The league-table scramble risks overwhelming the market with supply," warns Mr Kelleher.

Despite the heavy supply, many of last week's offerings continued to find firm demand. Walt Disney and PepsiCo – probably the two most significant deals of last week's slew of offerings – were among several rare US corporate names to tap into European retail demand at funding levels significantly lower than in the US domestic market.

Furthermore, the pace of new eurobond issuance does not appear to be slowing. Spain is expected to come to the market this week with a minimum DM2.5bn offering of five-year bonds, led by Commerzbank and Bayerische Landesbank, in a deal that could mark the revival of the D-Mark sector.

South Africa and Pakistan are both preparing for an entry into the euromarkets, although they may have to wait until the new year to make their appearance.

Conner Middelmann and Graham Bowley

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book runner
US DOLLARS							
Exim Bank of Japan	300	Dec.2004	8.25	99.46R	8.332	+30(7¾%-04)	Bk. of Tokyo Cap.Mkts.
St George Bank(c)‡	250	Jan.2000	(a)	99.76R	-	-	UBS
Ford Credit Europe	200	Dec.1997	8.00	99.96R	8.016	+40(7¼%-97)	ABN Amro Bank
Banco Inter-Atlantico	50	Dec.1997	11.25§	99.083R	11.63	+410(7¼%-97)	HSBC Markets
European Investment Bank	300	Dec.1999	8.00	99.71R	8.073	+7(7¾%-99)	Morgan Stanley Intl.
European Investment Bank	300	Dec.2004	8.25	99.969R	8.255	+15(7¼%-04)	Morgan Stanley Intl.
Republic of Austria	400	Jan.2005	8.25	99.65R	8.303	+25(7¼%-04)	JP Morgan Securities
Walt Disney Company	300	Dec.1997	8.00	100.00R	8.000	+25(7¼%-97)	Merrill Lynch Intl.
Govt.Asset Backed Securities‡	200	Aug.1999	(c,s)	99.79R		-	UBS
Sybiaki‡	200	Sep.1998	(d)	99.85	-	-	Lehman Brothers Intl.
Urban Mtge.Bank of Sweden‡	280	Sep.1998	(e)	99.8975	-	-	JP Morgan Securities
Council of Europe	150	Dec.1996	7.50	99.89R	7.595	+6(7¼%-96)	Swiss Bank Corp.
Eagle Pier Corp.(f,s)‡	200	Oct.2001	(f1)	99.73R	-	-	Morgan Stanley Intl.
Sanwa Australia Finance(g)‡	50	Dec.2004	(g1)	100.00	-	-	Sanwa International
CALMT Series 94-3(i,s)	350	Nov.1997	8.125	99.828R	8.205	+37(7¾%-97)	CSFB/Salomon Brothers
PepsiCo	250	Dec.1997	8.00	99.869R	8.051	+24(7¾%-97)	Morgan Stanley Intl.
Banque Nationale de Paris	200	Jan.1997	7.75	99.90R	7.806	+24(7¼%-96)	BNP Capital Markets
Südwest. LB Capital Mkts.	200	Dec.1996	7.625	99.76R	7.759	+15(7¼%-96)	Lehman Brothers Intl.
CEZ Finance	150	Dec.1999	8.875§	99.78R	8.931	+110(7¾%-99)	JP Morgan Securities
Crystal Castle Euro-Finance‡	150	Dec.1999	(k)	99.81R	-	-	Swiss Bank Corp.
West LB Europa(l)	100	Dec.1996	7.625	99.76R	7.78	+16(7¼%-96)	C.Lyonnais Euro-Secs.
Distrib. de Gas Pampeana‡	90	Dec.1996	(k)	99.55R	-	-	JP Morgan Securities
Banco Graneg	60	Dec.1997	11.25§	99.269R	11.96	+425(7¼%-97)	West Merchant Bank
Bayer. Vereinsbank O'seas	200	Dec.1998	8.00	99.99R	8.003	+15(l)	Swiss Bank Corp.
Bayerische Landesbank(l)	300	Dec.1997	7.75	99.66R	7.886	+15(7¾%-97)	Lehman Brothers Intl.
Federal Home Loan Banks‡	1.1bn	Dec.1995	(m)	100.00	-	-	Morgan Stanley Intl.
YEN							
Commerzbank(q)★	20bn	Mar.1997	3.45	100.05R	-	-	DKB International
Korea Development Bank	10bn	Jan.1998	3.95	99.99	3.953	-	Yamaichi Intl.(HK)
Mitsubishi Corp. Finance(s)	20bn	Mar.2000	4.30	100.30	-	-	Sanwa International
LB Rheinland-Pfalz★	10bn	Mar.1997	zero	93.50	3.032	-	Nordeutsche Intl.
Republic of Ireland★	30bn	Jan.2005	4.80	100.075R	4.790	-	Merrill Lynch Intl.
Republic of Argentina★	12.5bn	Dec.1998	7.10	99.70	7.223	-	Daiwa Europe
Korea Development Bank(l)★	10bn	Dec.1998	4.20	99.99	4.203	-	Nomura International
D-MARKS							
General Electric Capital.Corp.	200	Dec.1996	7.00	100.125R	6.993	+10(5%-96)	JP Morgan
Südwest. LB Cap.Mkts.(l,m)	100	Oct.1998	6.875	99.78R	6.93	+8(5¼%-98)	Morgan Stanley Frft.
Swiss Bank Cp. Jersey Branch	400	Jan.2000	7.00	99.82R	7.044	+10(7%-99)	Swiss Bank Corp. Frft.
STERLING							
DSL Bank(f)	100	Dec.1999	8.00	99.816R	8.103	+20(10%-99)	BZW
Prospect 1(t,b)‡	144.8	Dec.2003	(t1)	99.88R	-	-	UBS
FRENCH FRANCS							
ENSOS No.1, Tranche A(u)	981.14	Mar.2005	7.10	99.94R	7.39	+84(l)	AgricOle/G.Sachs Paris
Bayerische Hypobank	1bn	Dec.1996	7.00	99.95R	7.025	+20(8½%-96)	CCF
Carrefour(q)	400	Dec.1998	zero	100.00	-	-	Banque Indosuez
ITALIAN LIRE							
Depfa Bank(l)	150bn	Jan.1997	10.60	101.05	10.19	-	Banca di Roma
European Investment Bank‡	240bn	Dec.1999	(s)	100.30	-	-	CS First Boston
CANADIAN DOLLARS							
Ville de Montreal‡	200	Jan.2000	(s)	99.77R	-	-	Merrill Lynch Intl.
AUSTRALIAN DOLLARS							
New Sth.Wales Trea.Corp.★	100	Dec.1997	4.50§	88.139	9.109	-	Nomura International
Dresdner Australia	75	Jan.1998	10.00	101.055	9.578	-	Dresdner Bank
Commerzbank O'seas Finance	125	Jan.2000	10.50	101.41	10.13	-	Hambros Bank
New Sth.Wales Trea.Corp.★	100	Dec.1997	4.50§	87.324	9.451	-	Nomura International
PESETAS							
FdTH UCI 1, Class A(b1)‡	10.025bn	Sep.2017	(b2)	99.9575	-	-	Bco.Santander/Lehman
SWISS FRANCS							
European Sovereign Invs.(s)★	175	Nov.1999	5.75	102.50	-	-	Credit Suisse
General Electric Capl.Corp.(p)	100	Dec.1997	5.375	102.50	4.437	-	Merrill Lynch Cap.Mkts.
LUXEMBOURG FRANCS							
Commerzbank	3bn	Dec.2000	zero	65.55	7.398	-	Crédit Européen

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. §Convertible. ‡Floating rate note. ★With equity warrants. ★Unlisted. [illegible] coupon and yield. R: fixed re-offer price. a) 3-mth Libor +30bp. b1) Fondo de Titulizacion Hipotecaria. Average life 4 yrs. b2) 3-mth Libor +27bp. b3) Class B: 0.425bn, 3-mth Libor +110bp, av.life 6.3 yrs, Lehman sole lead. c) 3-mth Libor +15bp. d) 3-mth Libor +8bp. e) 3-mth Libor +⅛%. f) Backed by personal loans. Monthly coupons. Expected maturity: Apr.99. Average life: 1.8 yrs. Mezzanine tranche: Fr60m, 7.5%, 99.58R, av.life 2.1 yrs, BTAN's +150bp. [illegible] Over interpolated yield. [illegible] Over interpolated May and Oct 1998 BTAN's. [illegible] Auto Loan Master Trust. [illegible] 3-mth Libor +300bp. [illegible] Long 1st coupon. m) Fungible with DM300m. Plus 62 days accrued. n) 3-mth Libor -25bp. q) 3-mth BA's +8bp. p) Fungible with SFr125m. Plus 39 days accrued. q) Redemption proceeds: par + 110% of Carrefour share price (initial: FFr2103) performance, max 166%. r) Issue launched 29/11/94 was increased to 500bn. s) Short 1st coupon. t) Collateralised consumer loans originated by [illegible] Bank. Mezzanine tranche £18.175m, 9 yrs, 3-mth Libor +80bp, par. t1) 3-mth Libor +20bp. u) 1-mth Libor -12½bp. Note: Yields are calculated on ISMA basis.

EMERGING MARKETS: This Week

The Emerging Investor / Patrick McCurry

Brazil pins growth hopes on reforms

Brazil's volatile stock market has shown spectacular growth this year and, with a new currency bringing down inflation and a modernising new president about to take office, many analysts are tipping it as the star emerging market for 1995.

They point to Brazil's economy of 157m potential consumers, a dynamic private sector operating at well below capacity and a stock market they regard as heavily undervalued when taking into account the country's growth potential.

"There's a lot of excitement at the prospect of Brazil returning to its heyday of the 1950s to 1970s when its annual growth rate averaged 7 per cent," says Ms Emily McLaughlin, a director at London-based Foreign and Colonial Emerging Markets.

Although trading has recently been sideways or down, the São Paulo stock market's selected index of the 55 most traded shares has appreciated by nearly 70 per cent this year thanks to optimism about the new Real currency, which has led to a sharp fall in inflation, and the prospect of economic reforms under future president Fernando Henrique Cardoso.

But there are doubts. Some investors remember that a year ago Mexico's market was being touted as one of the great prospects for this year, but has instead fallen owing to a combination of political violence and poor company results.

The prospects for Brazil's market, which had a capitalisation of $190bn at the end of October, depend on the introduction of economic reforms to provide a base for long term company earnings growth, say analysts.

These reforms include tackling an unwieldy system of public finances, a complicated and inefficient tax system and a social security system facing severe funding problems as well as speeding up privatisation.

There is little likelihood of quick progress early next year. Mr Cardoso, who takes office on January 1, is naturally cautious and will have to negotiate reforms with a new Congress which takes office in mid-February.

Mr Robert J Pelosky, chief strategist at Morgan Stanley Latin America Research in New York, is sceptical about how quickly Brazil will move on reforms and he notes that the selected index has appreciated by about 300 per cent in the last two years, much of that due to expectations of economic stability.

"The easy money has been made in Brazil and next year the government will have to take some tough decisions. It will be a gradual process," he says, adding that the Brazilian market is comparatively expensive, trading at 19 times estimated 1995 earnings.

Ten best performing stocks

Stock	Country	Friday 2/12/94	Week on week change $	%
Yapi Ve Kredi Bankasi	Turkey	0.1023	0.0327	46.90
Turk Demir Dokum	Turkey	0.2101	0.0571	37.35
Cukurova Elektrik	Turkey	0.2810	0.0571	25.47
Bagfas	Turkey	0.2647	0.0489	22.65
Sui Gas North	Pakistan	1.4216	0.2459	20.91
Teletypos	Greece	5.1150	0.8294	19.35
Michaniki	Greece	14.9959	2.3261	18.38
Alarko Holding	Turkey	0.8322	0.1220	17.18
Grupo Financiero Banamex	Mexico	7.0400	0.8018	12.85
Brisa	Turkey	0.2074	0.0216	11.64

Source: Baring Securities

This scepticism appears to have been partly reflected by investors recently.

Since Mr Cardoso was elected on October 3 the selected index has fallen by about 20 per cent due to profit-taking and the rise in international interest rates as well as investors' belief that the reform process will be slower than first expected and that privatisation of companies such as Telebrás, the telecom holding group, and Petrobrás, the oil company, are unlikely in the short term.

The market has also been worried about the precariousness of some parts of the financial system during the current stabilisation.

Two weeks ago the selected index fell 12 per cent after worries about a central bank liquidity squeeze, which has led to the liquidation of seven small banks since the Real was launched in July. A central bank announcement that it was relaxing the squeeze on smaller institutions helped calm investors.

But trading has been flat. Average daily trading volume, including options, was $315m in November compared to more than $500m in September and October.

Analysts say the market is waiting for Mr Cardoso to announce his reform proposals, including probable changes to the Constitution, and to evaluate the chances of their approval in the new Congress.

Another uncertainty surrounds the future behaviour of foreign investors, who have been one of the motors of growth for the market.

Last year net foreign investment in Brazil's capital markets, mainly in the stock market, was a record $5.5bn and that helped the selected index more than double in value.

But in the first 10 months of this year the net inflow has been $3.4bn and few analysts expect a huge inflow of foreign capital early next year.

Analysts point out that Brazil, like other emerging markets, has been hit by the turbulence in world interest rates this year.

"As usual Brazil is going against the tide. Just as international interest rates are attracting money away from emerging markets the country is about to implement reforms," says Mr Roberto Serweczak, head of trading at brokers Barings in São Paulo.

And Mr Pelosky notes that Brazil could be a target for profit-taking by overseas investors: "Worldwide stock markets are under pressure and Brazil would be one of the obvious markets for profit-taking because of its gains this year."

A reduction in overseas portfolio investment could, however, please Brazil's central bank which has been concerned about a large inflow of foreign exchange contributing to an overvaluation of the Real.

The new currency has appreciated by about 15 per cent against the dollar since its launch and although this has helped keep inflation down, by making imports cheaper, many Brazilian exporters are suffering.

To signal its concern about dollar inflow the bank announced in October a 1 per cent financial operations tax on new foreign money brought into the stock market.

Analysts believe the bank is unlikely to increase the tax unless there appears to be a serious threat to the Real's stability caused by a high dollar inflow. The government, say bankers, is keen to develop Brazil's stock market with the help of foreign investment and it will probably need overseas investors for its privatisation programme.

Some analysts believe the only substantial sell off next year will be Light, the electricity company, although Companhia Vale do Rio Doce, the iron ore mining giant, is a possibility.

This lack of privatisation perspectives has led some investors to switch to second line private sector companies, particularly in consumer related areas expected to benefit from increased purchasing power following the fall in inflation.

The trend has been reflected in the performance of the FGV-100 index, which tracks private sector non-bank shares.

So far this year, and especially in the last three months, it has outperformed the selected index, which is dominated by government-controlled companies.

The FGV was up 175 per cent in dollar terms at the end of November compared to a 71 per cent advance for the selected index.

News round-up

Slovakia

Slovakia plans to start the second wave of its programme of offering shares for investment coupons on December 15. The first bidding round will commence next month, the finance ministry said. About 60 per cent of Slovaks have registered.

Macedonia

Macedonia's privatisation agency is understood to be pressing the government of the former Yugoslav republic to allow it to set up a stock exchange to aid structural reform.

The agency has sold some 20 state-owned companies, worth $8m, out of a total of 1,800 since it was set up at the beginning of this year.

Israel

First International Bank of Israel has introduced an instrument that will allow domestic investors to invest in the dollar-shekel continuous foreign exchange market, agencies report.

Under current law, only importers, exporters, banks and foreigners can buy foreign currency in Israel for investment.

The instrument was made possible by the liberalisation of the country's currency markets on July 4, when the government introduced a continuous trading system.

This system now accounts for 68 per cent of Israel's forex trading.

Burma

A senior member of the State Law and Order Restoration Council has assured overseas businesses of fair treatment, agencies report.

The official said that foreign investment at present stood at $1.3bn. On October 29 1988, the SLORC declared a policy of moving towards a market economy after more than 25 years' experimenting with socialism.

Economists note that the artificially high exchange rate of the kyat against the dollar, and vestiges of the former command economy still hamper Burma's economic progress.

● *Edited by John Pitt. Further coverage of emerging markets appears daily on the World Stock Markets page*

CURRENCIES

Philip Gawith

Dollar still the focus for traders

The resurgent dollar will be the focus of attention this week after breaking through the Y100 level last Friday for the first time in two months.

The dollar recovered from about Y96 and DM1.50 when the Fed intervened to support it at the beginning of November.

The dollar's recent rise appears to have been driven by higher US interest rates and improved sentiment, based on the greater credibility of the Federal Reserve recently.

Some investors also believe that the shift in power towards the Republicans has changed the outlook for US policy, in a way which will benefit US assets and the dollar.

A strong jobs report on Friday served only to bolster the expectation of higher interest rates. This week there are no important statistical releases to watch. Instead, the focus will be on the publication of the Fed's beige book – which sets out the economic backdrop to the policy-making FOMC meeting on December 20 – and congressional testimony from Mr Alan Greenspan, chairman of the Fed.

In the UK, markets will be watching the monthly monetary meeting on Wednesday, which could result in a further rise in interest rates.

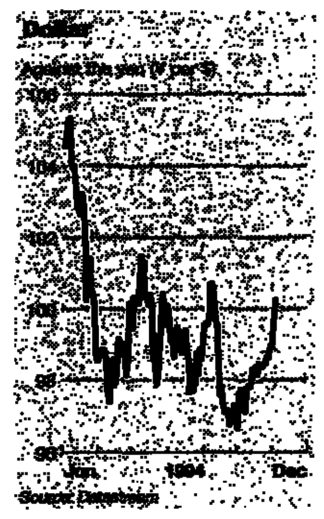
The balance of opinion favours the Bank of England waiting for the new year. An early tightening would be well received by markets, making UK assets and sterling more attractive.

The Bundesbank council meets on Thursday, with the expectation that rates will be left unchanged. Dollar strength, and fears of a further cut in German rates, have caused D-Mark weakness recently.

The market will also be watching the lira, amid renewed talk of Italy re-entering the exchange rate mechanism.

An agreement between unions and government on pensions last week helped the lira, but political uncertainty remains a constraint.

Alan Greenspan: the market awaits his words



Baring Securities emerging markets indices

Index	2/12/94	Week on week movement Actual	Week on week movement Percent	Month on month movement Actual	Month on month movement Percent	Year to date movement Actual	Year to date movement Percent
World (301)	171.95	+1.96	+1.15	-9.90	-5.44	+3.54	+2.10
Latin America							
Argentina (20)	98.42	+2.80	+2.99	-8.29	-7.92	-18.96	-16.43
Brazil (21)	216.57	+2.70	+1.26	-10.20	-4.50	+76.92	+55.06
Chile (12)	223.30	+8.28	+3.85	-6.72	-2.92	+75.76	+51.35
Mexico (25)	142.81	+8.66	+6.46	+0.15	+0.10	-18.45	-11.44
Peru(16)	907.71	+39.93	+4.60	-56.21	-5.83	+331.62	+57.56
Latin America (94)	164.75	+6.11	+3.85	-5.09	-3.00	+15.51	+10.39
Europe							
Greece (16)	84.38	+3.01	+3.70	-0.96	-1.13	+1.29	+1.55
Portugal (18)	118.03	-1.84	-1.54	-5.44	-4.41	+5.90	+5.26
Turkey (21)	86.37	+5.62	+6.96	+8.90	+11.49	-75.34	-46.59
Europe (55)	99.77	+1.35	+1.37	-0.96	-0.95	-12.47	-11.11
Asia							
Indonesia (26)	136.21	-5.76	-4.06	-19.08	-12.29	-34.83	-20.37
Korea (23)	147.63	-7.62	-4.91	-12.64	-7.89	+37.93	+34.57
Malaysia (23)	207.28	-8.77	-4.06	-26.67	-11.40	-45.77	-18.09
Pakistan (11)	110.03	+3.62	+3.40	+3.13	+2.92	-1.66	-1.48
Philippines (12)	263.95	-17.59	-6.25	-43.60	-14.18	-58.53	-18.15
Thailand (25)	246.61	-1.85	-0.74	-35.86	-12.69	-16.94	-6.43
Taiwan (32)	169.37	+2.82	+1.69	+2.63	+1.58	+15.66	+10.19
Asia (152)	205.66	-5.51	-2.61	-21.25	-9.36	-15.76	-7.12

All indices in $ terms, January 7th 1992=100. Source: Baring Securities

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, December 2, 1994. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	5401.88	3463.03	2194.98	3449.54
Albania	(Lek)	156.740	100.487	63.6695	100.096
Algeria	(Dinar)	63.8812	40.75	25.8276	40.5912
Andorra	(Fr Franc)	8.4436	5.4132	3.4309	5.3921
	(Sp Peseta)	206.393	131.641	83.4347	131.128
Gambia	(Dalasi)	15.1301	9.7	6.1479	9.6622
Germany	(D-Mark)	2.4610	1.5777	1	1.5716
Ghana	(Cedi)	1614.39	1035	655.989	1030.97
Gibraltar	(Gib £)	1.00	0.6411	0.4063	0.6386
Greece	(Drachma)	379.645	243.392	154.264	242.444
Pakistan	(Pak. Rupee)	47.8365	30.6683	19.4378	30.5488
Panama	(Balboa)	1.5598	1	0.6338	0.9961
Papua New Guinea	(Kina)	1.7867	1.1454	0.726	1.141
Paraguay	(Guarani)	2994.82	1920	1216.91	1912.52
Peru	(New Sol)	3.3714	2.1614	1.3699	2.153
[illegible]					

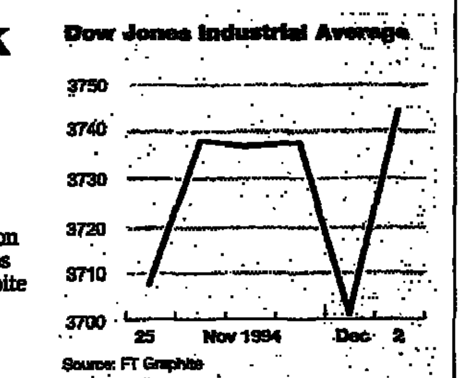
Special Drawing Rights December 1, 1994 United Kingdom £0.929914 United States $1.45764 Germany DM2.26733 Japan Y144.323 European Currency Unit Rates December 2, 1994 United Kingdom £0.777016 United States $1.21819 Germany DM1.91732 Japan Y121.521

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (l) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (n) Public transaction rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate; (u) Currencies fixed against the US Dollar; (v) Floating rate; § CIS applies to states in the Rouble Zone. (1) Yugoslav Dinar rate n/a. (2) Yemeni rates for 29.4.94. Some data derived from THE WM/REUTERS CLOSING SPOT RATES & Bank of America, Economics Department, London Trading Centre. Enquiries: 071 634 4360/5.
Friday, December 2, 1994

EQUITY MARKETS: This Week

NEW YORK — Lisa Bransten

Investors look for decisive move by Fed



Rumbles of another interest rate increase are being heard once again on Wall Street and the stock market does not like such noises one bit. But despite investor fears that recent strong economic data will lead to another round of monetary tightening by the Federal Reserve, the Dow Jones Industrial Average followed soaring bond prices Friday to post its highest gain in over a month.

The market may spend this week deciding whether it will post more declines on fears of interest rate increases or continue to move in tandem with bond prices, which seem at last to be cheered by the prospect of another monetary tightening.

Mr David Hale, chief economist at Kemper Financial Services, says sentiment is growing on Wall Street that the central bank will act quickly and decisively – positive news for markets that have been worn down in part by a long, drawn-out process of monetary tightening.

"There is a growing possibility that the Fed could hike interest rates in December," he says. Still, he says there is less than a 50 per cent chance the Fed will act this month. The next meeting of the Fed's Open Market Committee is scheduled for December 20.

Last week's deluge of economic statistics reinforced fears that the Fed will have to act again quickly. Consumer confidence hit its highest level since 1990, the third-quarter gross domestic product figure was revised upward, and the National Association of Purchasing Managers index of business activity hit its highest rate in more than 10 years. The week closed with news that unemployment fell to its lowest level in four years.

Mr Bill Dodge, chief investment strategist at Dean Witter Reynolds, says part of the explanation for Friday's gain of more than 44 points by the Dow lies in the fact that the market became oversold at the end of November, having fallen almost 130 points in the past three weeks.

"The market is going to try and have a year-end rally," he says. But he warns that any year-end gains will probably not be large or long-lasting.

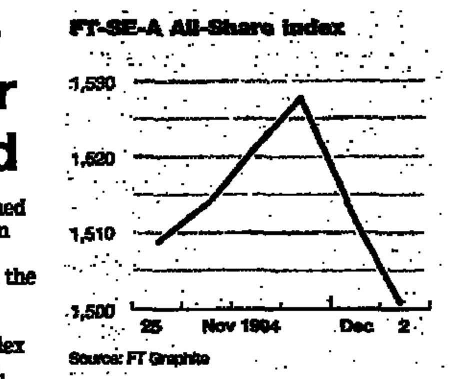
In the near term, he says, further interest rate increases could hurt stocks by eroding corporate earnings and making fixed income instruments attractive alternatives to stocks.

Although economic news due out in the next five days is less important than last week's figures, investors will be able to take cues from some of the new statistics. Figures due out today will give an indication of consumer demand for cars and homes.

Also important will be figures on productivity to be announced mid-week. So far this year productivity gains have kept wage inflation below other elements of the surging economy.

LONDON — Steve Thompson

Next rate rise may be closer than expected



The FT-SE 100 index has now launched no less than 10 successful assaults on the 3,100 mark since falling through that level at the end of March, when the Federal Reserve tightening moves began to bite.

On most of these occasions the index looked set to consolidate above 3,100, only to fall back below that level every time. And behind those falls on virtually every occasion was the threat of, or an actual rise in interest rates.

After the series of US rate rises, the first UK interest rate increase since the sterling currency crisis in September 1992 was responsible for dumping the FT-SE firmly below 3,100.

The market fought back well, penetrating 3,100 in mid-November and cruising to 3,147 the week before the Budget amid a sequence of impressive economic numbers, indicating continued low inflation – the lowest for 27 years – and good growth.

Then a blast of Wall Street-inspired weakness knocked the FT-SE back below 3,100. And there were worrying signs last week that there could be more trouble. Wall Street, which has shown it still sets the agenda for stock markets worldwide, is looking decidedly uncomfortable.

Almost every US economic indicator pointed to the economy still growing strongly. Third-quarter gross domestic product was revised upwards, the consumer confidence index surged alarmingly and the National Association of Purchasing Management index rose more sharply than expected. Topping this was a non-farm payroll number which easily beat forecasts.

The Federal Reserve's Open Market Committee meets on December 20 and another rate rise in the US, with all its implications for Wall Street, and therefore UK equities, could be on the cards.

Notwithstanding the impact of falling US markets, the UK Budget was followed by a firm performance by sterling and gilts, which in turn triggered a flurry of overseas demand for equities. There was also a growing feeling, however, that the next rise in UK interest rates is closer than previously expected.

The chancellor is to meet the governor of the Bank of England on Wednesday and there are worries that a rise could follow their meeting, although many observers see January as the likeliest time to lift rates. Fretting about about such a move will not be good for equities.

Dividend news continues to reassure the big income funds. Seeboard's 21 per cent rise sets the scene for what promises to be a bumper interim reporting season for the regional electricity companies. Similar good news is expected from the four "recs" reporting this week. And watch for double-digit rises from Airtours, Siebe, Compass and Carlton Communications.

European privatisations

Finland steps up the pace

News late last week that Finnair, the Finnish national airline, plans to raise about FM500m ($103.3m) through an offer of up to 12m new shares to domestic and international investors has highlighted the attitude of the Finnish government to privatisation.

There are a total of 12 groups on the privatisation list, including Finnair. Others are Neste, the oil and petrochemicals group; forestry concern Enso-Gutzeit and Imatran Voima, the power company.

The government will not participate in the Finnair issue, which is being co-ordinated by Kleinwort Benson, the UK merchant bank, so its stake will be cut from about 70 to 60 per cent. This is typical of the approach the government has taken to the sale of state-owned assets.

While other European governments have used privatisation proceeds to bolster state coffers, so far most of the proceeds of Finnish privatisation have gone directly to the companies themselves. This is because heavy debt loads and Finland's deep recession between 1991 and 1993 left the companies with weak balance sheets.

Allowing proceeds of privatisation to go to the companies concerned has meant they enter the private sector with strong balance sheets.

"These Finnish companies are now in a very good position," said Mr Anders Bergendahl, Merrill Lynch relationship manager for Scandinavia.

The attraction of Finland for the international investor has been increased by liberalisation of capital markets. Finland has relaxed restrictions on foreign share ownership.

The Finnish equity market is the most cyclical in Europe, largely due to the predominance of paper, chemicals, metals and capital goods sectors.

Some analysts are recommending investors to be overweight in cyclical sectors. Research by Mr Mike Young at Merrill Lynch points out: "Finnish equities have consistently outperformed during economic recoveries." He adds: "Our valuation models suggest the market is anywhere from being the most overvalued to the most undervalued in Europe. Our interpretation is that it is among the most undervalued."

The Finnish government has taken a step-by-step approach to privatisation, gradually reducing its ownership in a number of companies and only moving cautiously below the 50 per cent threshold.

The pace of activity has increased in the past 12 months, with a total of FM7.4bn being raised from the sale of holdings in five companies – Outokumpu, the mining and metals group; Rautaruukki, the steel producer; Valmet, the paper machinery manufacturer; Veitsiluoto, the pulp and paper concern; and Kemira, the chemicals group.

The most recent move was the initial public offering made by Kemira, which raised FM1.14bn and lowered the state's stake in the company to 75 per cent. The government has parliamentary authorisation to lower its stake further in all five companies.

The next company on the list is almost certain to be Neste. Some estimates suggest the company is worth FM10bn, which would make it the biggest privatisation so far.

International bankers believe arrangements for the Neste sale are well under way, and expect it to come to market early in the new year. Morgan Stanley is the ministry's adviser and Goldman Sachs is the company's adviser.

Bankers believe the government wants to push through a partial privatisation of the company early next year before the March general elections.

One reason for the haste is that the elections look likely to return the Social Democrats to power. They have been less enthusiastic about privatisation than the centre-right administration and could try to slow the process, particularly where strategic companies are concerned, such as telecommunications and power groups.

Martin Brice and Christopher Brown-Humes

OTHER MARKETS

BANKS

More 10-month figures come from the German banks this week, with Dresdner reporting tomorrow, Deutsche on Wednesday and Vereins and Hypo on Thursday, but few analysts expect them to set the market alight.

In a pan-European review of the banking sector, Merrill Lynch notes that November saw the bounce from French and Belgian banks that it had been anticipating, producing eight out of 10 of the best performers in Europe.

However, Merrill continues to believe that there will be no sustained late cycle rally, in spite of the current buoyancy. It is not encouraged by the environment of rising rates and looks to specific stocks only to deliver longer-term performance.

FRANKFURT

Thursday brings the release of third-quarter GDP data and UBS is sticking with its growth forecast of 0.6 per cent over the quarter and 1.8 per cent on the year.

However, the bank points to recent statements by the economics ministry that growth was as strong as in the second quarter as indicating that there might be some upward risk.

November unemployment, also published on Thursday, is expected to be flat, after the steep decline in October.

UBS adds that the Bundesbank, holding its regular council meeting on Thursday, will watch real economic developments with interest, although the data is unlikely to have a significant impact on policy.

"Recent statements by council members suggest that they are quite confident that inflation will decline further, M3 growth should slow and progress will be seen in the attempt to consolidate the public budgets," says UBS.

Hence another small rate cut seems possible, although this week seems too early with a move more likely around the turn of the year.

BRAZIL

Brazil has been attracting a raft of positive recommendations from brokers in the course of the past week, and the outlook looks bright, *writes John Pitt.*

Merrill Lynch has forecast that the equity market will grow by 50 per cent during 1995 and out-perform the rest of Latin America. The country's economic stabilisation programme, masterminded by president-elect Fernando Henrique Cardoso, and the introduction of a new currency, the Real, in July, has so far cut inflation to around 3 per cent last month from around 50 per cent in July.

Baring argues that "the ingredients are now in place for Brazil to complete its transition to stability and for companies to start to reap the benefits of a more predictable environment". Consequently, the broker has raised its overweight asset allocation to 39 per cent from 35 per cent.

Foreign & Colonial reckons Brazil could be one of the best performing emerging markets in the world throughout next year. While the new administration, which takes office in the January, will have numerous problems to tackle immediately, F & C believes that the backdrop of a strong currency, strong president and economic package in place, will outweigh the difficulties.

TOKYO

The reappearance of foreign demand, coupled with continued demand by domestic public funds, enabled the Nikkei 225 to regain the 19,000 level last week, although low trading volumes, down to 210m shares on Friday, raise questions about where the market is heading this week.

The market will be awaiting Friday's publication of November's Tankan economic survey. James Capel expects the results to show continued improvement in business conditions.

Both the manufacturing and non-manufacturing indices are expected to show clear improvement with companies more bullish about their sales and profits expectations.

Capels adds that companies of all sizes will continue to report no difficulty in obtaining funds, laying to rest the suggestion that Japan may suffer from a credit crunch during the recovery phase.

HONG KONG

The market, which last week saw the Hang Seng index plunge 5 per cent to a low for the year, faces another raft of potentially negative news this week, *writes Louise Lucas.*

Brokers say that regional funds, raising cash in anticipation of redemptions, are likely to continue selling while the dominant fear of rising interest rates will continue to deter investors.

Today the market will be digesting Friday's unemployment figures from the US, but investors will also be acting on news of spiralling inflation in mainland China.

An arm of the State Planning Commission reckons that the retail price index will rise by 21 per cent next year, which would be the biggest recorded jump since the Communist takeover in 1949.

China shares have already been performing badly – the new H share listing, Zhenhai Refining and Chemical Company, fell 12.8 per cent on its debut on Friday.

Compiled by Michael Morgan

مصورة من الاصل

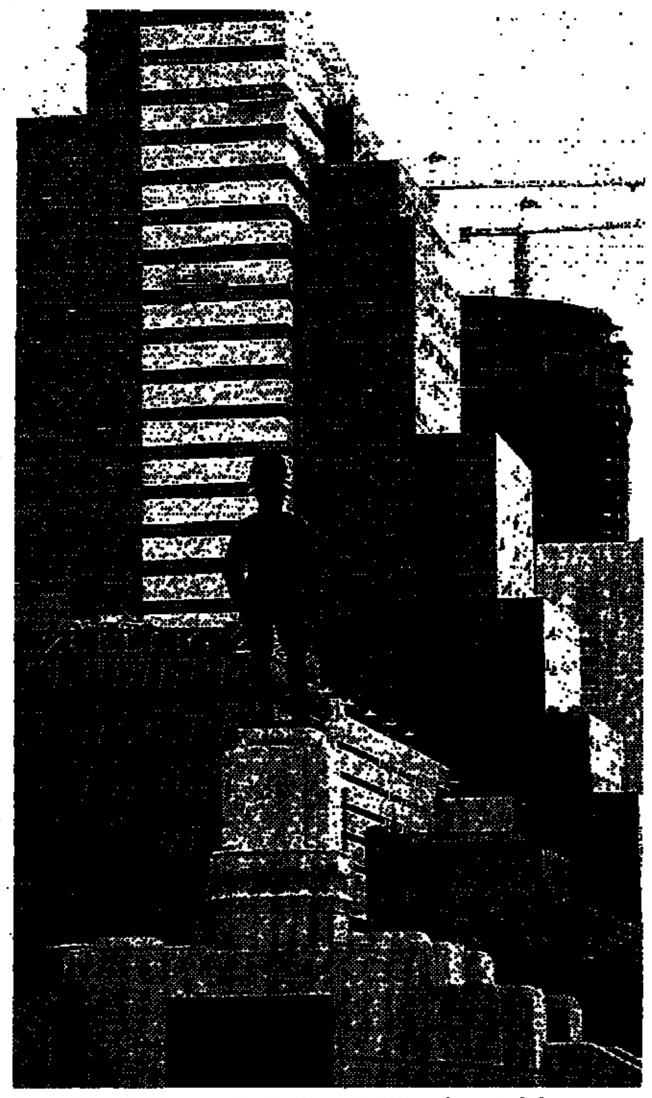
In central Bangkok a Square Mile of banks and finance houses is rising PAGE 3

FINANCIAL TIMES SURVEY

THAILAND

Democracy on trial: prime minister Chuan discusses his hopes and fears PAGE 4

Monday December 5 1994



Central Bangkok's expanding business district: order out of chaos

Dancer in a Bangkok temple: vibrant traditions

Pictures: John Wright

Industrialisation pays off

Thais are enjoying one of Asia's best economic performances. But pockets of poverty remain to be eradicated, says **Victor Mallet**

Thailand continues to lurch from one political crisis to another, but its economic performance has been consistently robust. Real gross domestic product growth averaged 7.4 per cent a year between 1971 and 1993, and is likely to average more than eight per cent from now until the end of the decade.

Although Thailand is still regarded as a "developing" country, industrialisation has already brought material benefits to most of its 59m inhabitants and made it into one of south-east Asia's most remarkable success stories.

No fewer than 97 per cent of the residents of greater Bangkok live in a household with television, while 84 per cent have refrigerators and 52 per cent video cassette players. Outside Bangkok, the figures fall to a still-impressive 86 per cent for television, 50 per cent for refrigerators and nine per cent for video machines.

Mr Chuan Leekpai, the mild-mannered prime minister who heads the coalition government elected in 1992, has started to redress the balance between the wealth of Bangkok and the relative poverty of the countryside by directing investment and government spending into the remoter provinces.

His most important achievement, however, has been to extend compulsory education from six years to nine, a decision regarded as long overdue and essential if Thailand is to improve the skills of its workforce and compete successfully in high technology industries against other emerging Asian economies.

It will take many years for education reforms to translate into better industrial performance – the first pupils to benefit will leave school three years from now – but in the meantime Thai exports continue to grow rapidly, with "new" manufacturing industries making items such as computers and vehicle parts overtaking "old" businesses such as textiles.

Japanese companies seeking to escape from the high costs imposed by the strong yen in their home base continue to regard Thailand as a favoured site for new investments. Large corporations such as Toyota are now being joined by a growing number of smaller component manufacturers that want to take advantage of the lower manufacturing costs and new markets available in south-east Asia.

Thailand can now see the advantage of liberalising various sectors of its economy hitherto protected as "infant industries" from outside competition, and seems to be opening up the economy faster than its rivals in Indonesia and Malaysia.

The government has begun gradually to liberalise the banking sector and the motor manufacturing industry, for example, because it believes this will help Thailand to become a regional hub for such activities.

While the bureaucrats at the Bank of Thailand (the central bank) and the finance ministry perform their traditional function of controlling inflation and ensuring that the government pursues prudent macro-economic policies, Mr Chuan can focus his considerable political skills on keeping his government in power.

Survival for a democratic government in Thailand is no easy task, although the armed forces, which have staged 17 coups d'état 17 since the end of absolute monarchy in 1932, are not seen as a particular threat at present. The last time they organised a coup in 1991 they quickly handed control to a civilian prime minister, and when they sought to keep power by parliamentary means in 1992 they were prevented from doing so by street demonstrations during which troops shot dead about 50 unarmed protestors.

Mr Chuan's main problem is the fragility of his own five-party coalition government. The present parliament is largely a product of a corrupt system of politics wherein most rural voters elect influential patrons – who are expected to extract money from Bangkok for their constituencies – instead of choosing candidates and parties on the basis of their policies.

If Mr Chuan stays in power for another two years, his would be the first democratically-elected government in Thai history to serve its full, four-year term of office. "The Thai people will have to learn that the democratic system lasts four years," sighs Mr Akapol Sorasuchart, a Bangkok MP for Mr Chuan's Democrat Party. "They have never, ever experienced that any elected person, let alone a government, lasts more than three years."

Among the recent humiliations Mr Chuan has had to endure at the hands of his coalition partners were the unilateral decision by the Palang Dharma (Moral Force) party to change all its cabinet ministers (including the foreign minister) and a public rejection by Gen Chavalit Yongchaiyudh, head of the New Aspiration Party, of the government's policy of promoting local elections.

"A cabinet decision is not God. It's just a piece of paper," Gen Chavalit said. This prompted Mr Suthichai Yoon, a leading newspaper columnist and executive editor of *The Nation*, to comment: "With coalition parties like the New Aspiration Party, who needs an opposition in the first place?"

Opposition politicians, meanwhile, are happy to exploit the coalition's weaknesses. In their latest attack, they have criticised the government's much-touted land reform programme, suggesting that some land in the resort island of Phuket was corruptly distributed to the undeserving rich instead of the *landless poor*.

Some of the government's accusers in the land reform scandal are not exactly angels themselves and Mr Chuan's government is probably more honest than most of its predecessors, but the endless twists and turns of Thailand's byzantine politics have had a debilitating effect on the prime minister's ability to take decisions and enforce them.

Until now the Thai economy – driven by Sino-Thai entrepreneurs and free from the ethnic and religious divisions suffered by neighbouring countries – has prospered in spite of chronic political instability.

But as the economy becomes more complex the need for good government and improved legislation and regulation becomes ever more urgent.

The most notorious problem stemming from successive Thai governments' failure to do what governments are supposed to do is the chaotic traffic congestion in Bangkok. After two decades of negotiations involving dozens of contractors and government agencies, Bangkok has no mass transit system – and the three that are currently planned do not connect with each other.

Such difficulties are not confined to transport. In telecommunications, private companies are finally installing millions of long-awaited new lines, but a duopoly of state organisations retains overall control and the regulatory environment is murky.

Thailand needs billions of dollars for investment in infrastructure projects, but delays are due mainly to an inability to make decisions rather than lack of money.

Thailand regularly runs a budget surplus, and the country's gross domestic savings ratio rose to 37 per cent of GDP in 1993 from an average of 22 per cent in the decade to 1980. Foreigners would make up any shortfall by investing in Thai infrastructure if they had confidence in the legal system and the government's ability to set priorities.

"I've always believed that our infrastructural problems have nothing to do with lack of capital," *says Mr Ammar Siamwalla*, president of the Thailand Development Research Institute (TDRI), an independent foundation. "We require public sector decisions and that is what is missing."

Another concern is that the private sector is poaching the underpaid Thai civil servants who have hitherto kept the economy on an even keel through even the worst periods of political turbulence.

According to the TDRI, a permanent secretary's salary in 1990 was worth only 15 per cent of its real value in 1909. In the finance ministry, says Mr Ammar, "We're seeing the last of the mandarins departing this year and in the next few years."

Despite such obstacles, Thailand's recent history suggests that it will adapt to changing circumstances fast enough to achieve continued economic growth. Political stability, however, remains an elusive goal.

At the very least, the methodical Mr Chuan will need the rest of his current term of office and a second term with a stronger mandate if he is to fulfil his aims of promoting development in rural areas, narrowing the widening gap between rich and poor, imposing the rule of law and strengthening democracy.

Mr Chuan himself is aware that his coalition is fragile, and says he will be satisfied if he can lay the foundations for an orderly transfer of power. "For a coalition government made up of five political parties, I'm satisfied with two years," he says. "For the remaining time it's important to support the system. Once the system is widely accepted any future changes will then go according to democratic rules."

Exports lift the economy's performance, writes **William Barnes**

The focus changes

The Thai economy continues to defy the pessimists who predict that after three decades of rapid growth it must surely stumble.

Despite fears that Thailand may be losing its competitive edge to lower cost manufacturers in China, Vietnam or Indonesia, economists at the Bank of Thailand, the central bank, have confidently predicted economic growth in excess of eight per cent for the next three years.

The lack of a comprehensive industrial strategy, the inadequacy of Bangkok's transport and communications infrastructure and rising labour costs have all been cited as reasons for economic turbulence.

But these problems are offset by the Bank of Thailand's steady hand on the monetary tiller, the entrepreneurial spirit of the country's Sino-Thai business families, substantial natural resources and a sizeable population in a strategic location.

This became famously apparent in 1988 when the economy was first lifted into very high growth by the wave of Japanese manufacturing investment that flooded into Thailand; a three-year leap in the value of the yen – from Y252 to Y125 per dollar – had made Japan-based exports increasingly uncompetitive.

By 1990 the Thai economy was overheating but Saddam Hussein's invasion of Kuwait dampened the speculative fever. The February 1991 military coup d'etat damaged confidence as well, and many investment decisions were put on hold during the military's failed but bloody attempt to suppress pro-democracy protests in the summer of 1992.

But protesters' shouts had hardly died down when it became clear – with political stability promised by prime minister Mr Chuan Leekpai's new, reformist government – that pent-up spending pressure was pushing the economy into a higher gear again.

In 1993, driven by accelerating domestic demand, especially "feel-good" consumer spending, the economy expanded by 7.9 per cent compared with 7.6 per cent in 1992. This year, while domestic demand remains strong, there has been a change of focus: the global economy's expansion has prompted a surge in exports which should see the economy grow by more than eight per cent in 1994 and 1995, according to Bank of Thailand estimates.

The value of exports grew by 20.3 per cent in the January-September period this year; particularly noticeable have been a sharp increase in sales of high value-added items – exports of computers and computer parts rose 44.1 per cent. Traditional commodity sales also recovered. Rice exports rose 17.6 per cent after contracting 9 per cent in 1993.

These exceptional figures are partly explained by low exports in the first half of 1993, and there would be no alarm if export growth slowed in the final months of this year. For the year as a whole, exports are expected to expand by between 16 and 20 per cent.

It is a sign of the Thai economy's increasing sophistication that capacity constraints are a cause of concern. The issue was hardly debated at all before this decade.

Official capacity utilisation figures are still being developed and may not be very accurate, but economists believe there is still sufficient slack in most sectors of the economy – cement and semiconductors are exceptions – to contain inflation; it needs watching but is not currently considered a serious threat.

One reason why economists are so confident that the growth rate can be maintained is a new wave of Japanese investment. This latest surge of capital injection has, like previous ones, been driven by a rising yen, although there are important differences.

Much of the new investment is in the form of expansion by companies already well-established in Thailand, such as Toyota.

Mitsui, the conglomerate whose Thai operations are its largest outside Japan and the US, intends to invest another $3bn in the region – mostly in Thailand – in the next five years.

Component suppliers are also sweeping into Thailand behind the big Japanese multinationals. "We are handling 200 medium-sized companies who are here chasing the big brothers," says Mr Mitsutoshi Koyama, general manager of The Sakura Bank.

This latest investment wave will be shorter than the first; but it will also do less damage to the current account and feed into higher output more quickly than the first time around.

The Board of Investment – which vets projects for tax breaks – has reported that investments are currently coming in at about the same level as the peak year of 1988. Mr Koyama warns against underestimating Japanese investment because much of it is now raised in Bangkok and reckons that Japanese companies have invested a total of Y400bn in the last two years.

Many of the investments now being made should turn productive during the course of 1995; hence the predictions that economic growth will accelerate to nine per cent or more in 1996 before slowing somewhat for the remainder of the decade.

The once worrying current account deficit is currently at its smallest level for five years at five per cent of GDP. It will inevitably rise again but for the right reasons – to perhaps a new peak of over six per cent in 1996 – before easing off quite sharply by the year 2000.

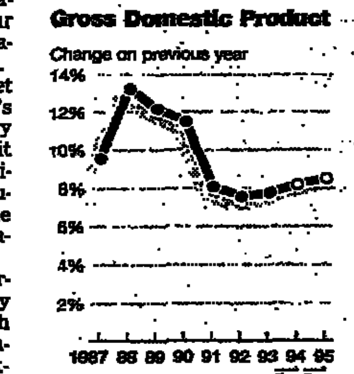
In spite of the favourable medium-term outlook the pessimists can still point to the failure of the education system – only a third of the population has more than six years of schooling – which threatens the much heralded climb into higher value-added growth.

New figures compiled by the Thailand Development Research Institute show that for the first time this year exports of high-tech or sunrise industries have outpaced those from low-tech, or sunset, industries.

Mr Chalongphob Sussangkarn, head of the TDRI's macroeconomics programme, says it has taken only eight years for capital intensive production in Thailand to overtake labour intensive products in value, whereas in the past other east Asian economies have taken more than a decade.

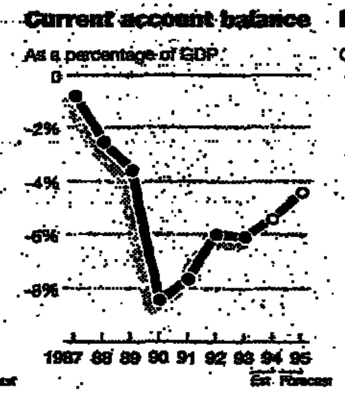
"By the end of the century the high-value products could account for 70 per cent of exports – yet we have left it two decades too late to develop our own technological expertise," Mr Chalongphob said.

Gross Domestic Product

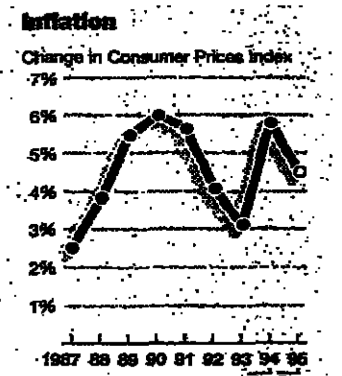


Sources: ADB, Thai government

Current account balance



Inflation



Bangkok's influx of foreign banks echoes the rise of Hong Kong

Haven of financial freedom

Many foreign bankers in Thailand can reach their desks these days only after dodging through gangs of construction workers busy refurbishing their Bangkok offices, writes WILLIAM BARNES.

After years of watching their fortunate domestic counterparts profiting from Thailand's economic boom, foreign bankers are now manoeuvering to take advantage of the liberalisation of the banking sector.

"The truth is that the regulatory environment is already probably one of the best in Asia. It's probably the most enlightened in Asia next to Hong Kong," says Mr David Hendrix, general manager of Citicorp in Thailand. "There is an unbiased and fair treatment of foreign banks that doesn't exist in many other countries in south-east Asia."

Foreign banks have rapidly expanded their wholesale banking business since the late 1980s, and anticipate further liberalisation. The more vigorous of the 14 foreign banks allowed full branch licences have seen their lending grow fivefold in less than six years.

Business picked up in 1992 when the Thai monetary authorities introduced the offshore banking scheme known as the Bangkok International Banking Facility (BIBF). Foreign banks have quickly captured half the important out-in lending business (foreign loans for use in Thailand) under the BIBF.

Lack of a full branch licence is clearly not a barrier to expansion: the 22 branchless foreign banks have managed to garner a quarter of the BIBF business providing Thai corporations with cheaper funds, usually in dollars.

After years of making profits from the wide spreads ensured by their lucrative domestic banking cartel, Thailand's 15 commercial banks have been slower to make a mark in the offshore loan business. Much of the Thai banks' "BIBF" lending appears to have been found by bringing existing offshore loans under the BIBF umbrella.

If the liberalisation of the Thai banking industry looks as though it will be painful, then that is partly the point: the Bank of Thailand, the central bank, has long term plans for Bangkok as a financial centre and wants local institutions lean enough and canny enough to compete in the global arena.

Although strong credit growth has again allowed Thai banks to report enviably juicy profits for another year, Mr Tarrin Nimmanahaeminda, the finance minister and a former president of one of the country's biggest banks, has repeatedly sounded the warning bell.

Perhaps the ongoing Gatt negotiations on trade in services have stopped Mr Tarrin from revealing a precise liberalisation timetable, but the outline plan seems to be to allow foreign banks to open up to two branches with restricted services outside Bangkok; to increase gradually the services in which they can compete and – perhaps by the turn of the century – to allow foreigners to extend their branch networks further.

Five more foreign branch licences have already been promised for 1995. Mr Vijit Supinit, Bank of Thailand governor, has hinted that at least two of those licences are likely to go to Japanese banks because, despite the massive Japanese industrial presence, only two of the 14 foreign banks with branches are Japanese.

Thai finance and securities houses are the prime candidates to pick up the handful of new licences that have also been promised to local institutions. To encourage the weaker Thai banks to merge with their stronger brethren the authorities will let them sell their surplus licences to Thai finance houses.

The bigger Thai banks, meanwhile, will remain formidable competitors, led by Bangkok Bank, south-east Asia's biggest bank whose new president is the 35-year-old Mr Chartsiri Sophonpanich.

Local banking chiefs have acquired a mania for "re-engineering". The first fully automated bank branch was opened recently as an experiment in Bangkok – a far cry from the traditional serried ranks of low-paid clerks laboriously shuffling paper.

It remains to be seen if the foreign banks can wrest significant retail business from the big locals with their branch networks of up to 400 sites, when the provinces are going to be the key growth area for retail banking. Electronic banking, however, may obviate the need for a big branch network now that the government has allowed foreign banks to use local ATM networks.

Most foreign banks will probably be satisfied that they can adequately service their international customers with just one or two branches. The Hongkong Bank, like Citicorp, will move into its new banking tower in this decade partly because the country's burgeoning middle class – two-thirds of the population is under 30 – will require extensive financial services.

"Thailand has been underemphasised in the past – I don't think that will happen in the future," says Mr Sandy Flockhart, the chief executive of the Hongkong Bank.

The retail sector is likely to remain a sideshow for the Japanese banks, which will continue to focus on working with Japanese companies investing in Thailand.

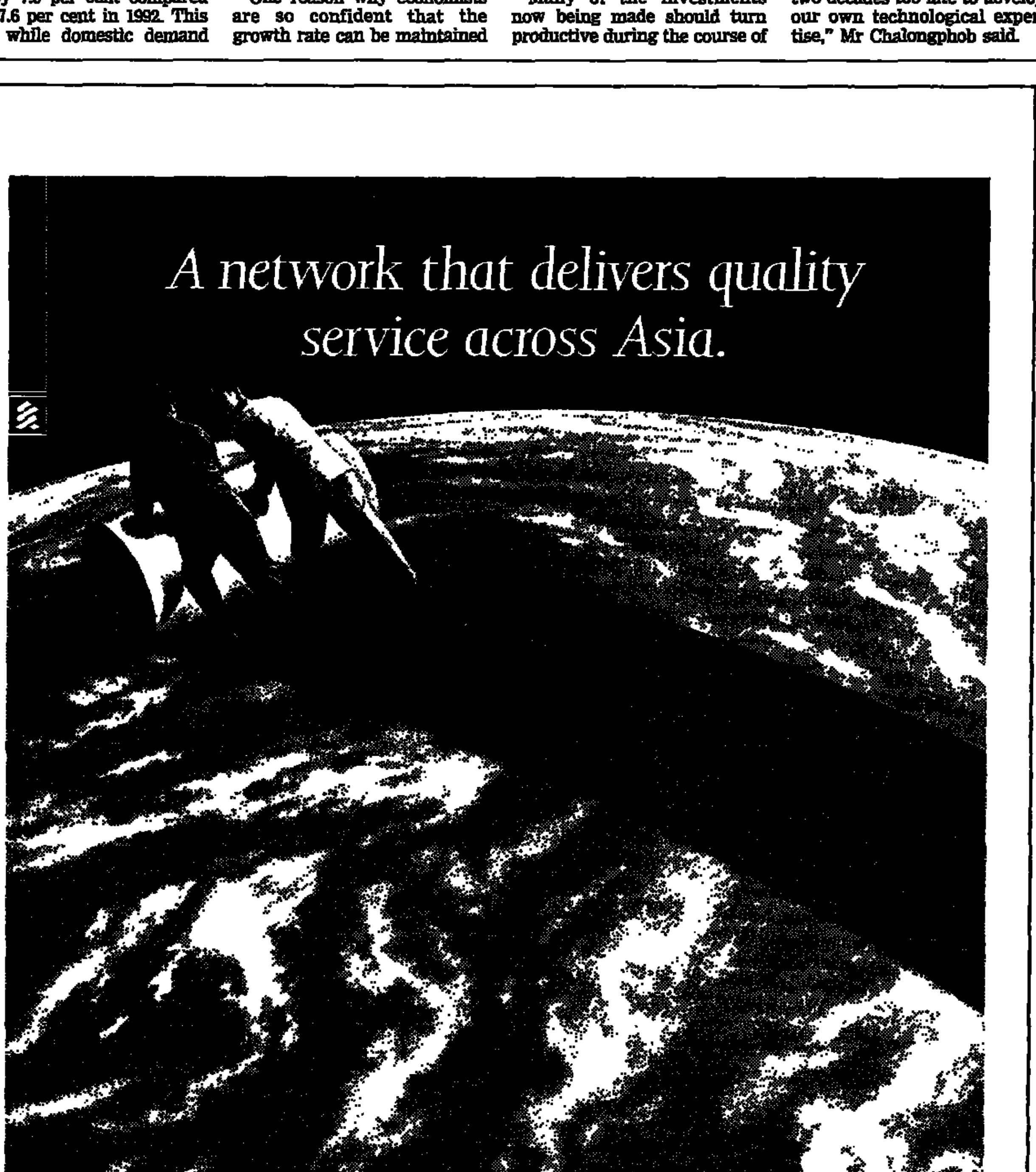
The biggest bugbear cited by foreign bankers – aside from some minor tax wrinkles and the traffic – is the shortage, and hence high turnover, of good Thai staff who have a reputation for job hopping. One European banker said: "It's really painful to see a young banker you have nurtured lured to a rival – but it's the same for every bank so I guess it is still a level playing field."

Foreign bankers talk of the banking opportunities in taking a lengthening list of companies to the stock market, of financing the country's multi-billion dollar infrastructure programme and helping corporations tap the capital markets for funds. Citicorp's Mr Hendrix compares Thailand with the 13 years he spent in Hong Kong: "There's a lot that I saw in the evolutionary development of the Hongkong capital market that I am seeing here – only at a much quicker pace."

Foreign Banks' Activity in Thailand (Baht million),

Bank	Total Assets	Net Credit Granted	Capital	BIBF, Total Assets
Sakura	53,377	48,985	2,200	26,287
Bank of Tokyo	48,202	42,042	2,000	24,338
Citibank	44,984	30,205	2,491	9,998
HSBC	24,525	20,457	1,500	8,169
Bank Indosuez	18,152	14,544	1,000	6,782
Standard Chartered	17,838	11,210	1,000	2,809
Bank of America NT&SA	17,084	13,780	1,000	8,339
Deutsche Bank	16,829	12,039	892	4,248
Chase Manhattan	9,940	8,765	615	5,627
Int Commercial Bank of China	2,566	2,089	320	n.a.
Four Seas	2,262	1,858	300	828
Bharat Overseas	1,640	1,325	180	n.a.
United Malayan Banking Corp.	1,118	627	250	n.a.
Bank of America (Asia)	510	154	300	72

, figures for September 1994. , BIBF = Bangkok International Banking Facility. Source: Bank of Thailand



A panoramic view of Bangkok and the Chao Phya river: one of Asia's most enlightened financial centres Picture: John Wright

Financial services are expanding rapidly, writes **Peter Montagnon**

Strains and pains of growth

On the surface, Thailand's financial markets seem to be developing at a similar cracking pace to the economy as a whole. Last month saw the official launch of a new bond market, while in its first two years of existence the Securities and Exchange Commission has tightened up considerably on regulation. It is now considering the introduction of a derivatives market.

Thailand will certainly need such a rounded capital market to finance the development of its own infrastructure. It is also almost certainly desirable if the country is to continue to attract a reasonable share of overseas portfolio investment. In recent months foreign buyers have accounted for roughly a quarter of equity purchases on the stock market.

Yet it would be asking too much for the development to proceed smoothly. Though market regulation has improved, practice does not always quite match up to theory, at least where corporate disclosure is concerned. The much trumpeted new bond market is unlikely to conduct a lot of business in the short term, because there is as yet no representative government benchmark bond. Uncertainty over the tax treatment of bond trades is also holding business back. The first day of trading saw turnover of only Baht 6.9m.

Mr Prasarn Trairatvorakul, SEC deputy secretary-general, points to a number of achievements since his organisation was set up. "We have brought the issues to the public in quite clear terms," he says. Brokers seem to agree. "It's not a revolution, but they are chipping away," says Mr Graham Catterwell of Crosby Research.

Bringing even a semblance of order to what was basically a market dominated by a few large players able to ramp particular issues is no mean feat for the SEC. It has meant taking on some powerful vested interests, but the SEC can claim two successes:

● It brought a series of prosecutions of people charged with artificial share-price manipulation. Though the court cases failed in the first instance to secure conviction, Mr Prasarn argues that the SEC's demonstration that it was serious has had a deterrent effect. "There were bubble stocks, which rose despite unfavourable fundamentals. That's quite diminished," he says.

● The SEC has tightened up on the rules concerning new issues. The old pattern was for large slices of a new issue to be made available cheaply to executives of the company concerned, the lead underwriters and other parties closely involved. Now at least 30 per cent of a new issue must be placed with retail investors and only 10 per cent may be set aside for preferential allocation. The SEC also requires new issuers to employ independent financial advisers who advise on the issue price and are jointly responsible with the company for the information in the prospectus.

A particular bone of contention is *the haphazard way that company* results are *announced*

These measures have enhanced the integrity of the market, but brokers say more remains to be done. A particular bone of contention is the haphazard way in which company results are announced. Though the rules in this regard are quite clearly defined, in practice the process by which information is disseminated through the stock exchange to investors looks flawed.

Normally only a headline earnings figure is revealed and it may be days or weeks before a fuller version becomes available. During that time, however, some investors will have been able to obtain details of the financial statement, and thereby put themselves in a privileged position vis-à-vis those who have not.

The Stock Exchange of Thailand itself denies there is a problem. "We have specific rules already about what companies have to disclose periodically," says Mr Seri Chintanaseri, its president. The exchange has several ways of disseminating the information, including its daily bulletin while company announcements are also available in its library for inspection, he adds.

As in other countries it is hard for the SEC to clamp down on insider dealing which carries a maximum penalty of two years in prison. Evidence is hard to come by, but the SEC is trying to combat this by requiring potential insiders – individuals closely associated with a comany – fully to disclose their transactions. It also wants companies to make public statements when the movement in their share prices becomes excessive.

Regulating Thailand's financial markets is made harder by the sheer pace of change. The SEC is keen to introduce a derivatives market, for example, because it will provide institutional investors with a means of hedging their positions and make the market as a whole more efficient. But a pre-requisite for the development of equity futures is an end to the ban on short-selling of shares. This in turn will weaken the SEC's ability to combat artificial manipulation of share prices.

On the other hand, if the SEC delays too long, derivative markets for Thai financial products will simply develop offshore where they cannot be regulated.

Already the cowboy image of the financial markets has receded as greater institutional presence adds to depth and liquidity. According to Mr Chaipat Sahasakul of the stock exchange, 70 per cent of the shares in issue are held by institutions, though small retail investors account for a similar percentage of the average daily turnover of $375m. The retail share is declining and the exchange has already noticed a reduction in price volatility.

Foreign investors have made their presence felt, though there is still very little evidence that they are directly concerned with matters of corporate governance. Thai institutional involvement is growing as well, though mutual funds make up only between 5 and 10 per cent of equity market transactions. Brokers say they expect life insurance companies to start playing a larger role. The government's plan to set up a pensions scheme next year may also reduce the domination of the market by retail players.

When that happens the regulators will be able to settle down to a more normal life. Meanwhile they are having to come of age at breakneck speed.

■ BANGKOK'S BUSINESS DISTRICT

A pattern emerges

Bangkok's traffic jams, skilled staff and poorly enforced commercial laws might seem enough to stifle the city's ambitions to become an international business centre.

Yet amid the polluting haze which bathes the capital (a tolerance for airborne pollution is as useful as a portable telephone) it is now possible to discern the makings of a viable, even attractive, regional business hub.

Bangkok is one of the *world's great unplanned* metropolises. Many urban schemes have been proposed over the years, but no-one has possessed the will or the means to overcome the combined inertia of bureaucrats and self-serving politicians.

The first urban rail scheme was proposed 25 years ago. But little progress has been made in building any of the city's three *planned* mass transit systems.

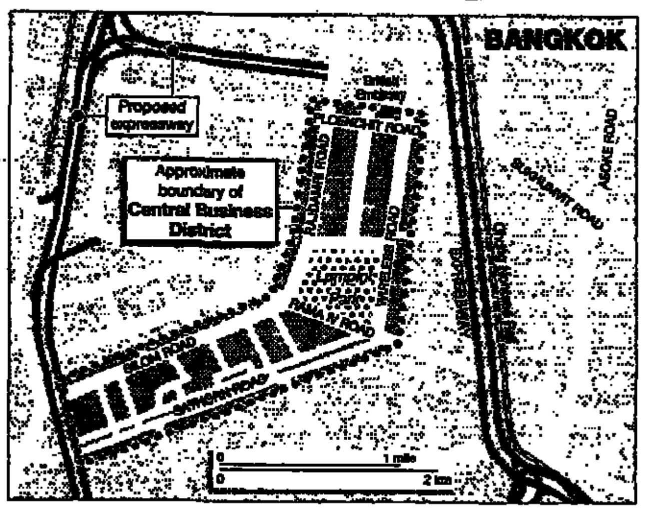
Yet it is worth remembering that Bangkok, where more than half the country's wealth is created, is merely choking on its own success. The number of foreigners moving into Bangkok will increase because Thailand needs their technology to produce the higher value-added exports it must sell to remain competitive.

Many international companies will continue to place their regional offices in Bangkok because Thailand remains a relatively cheap place to do business yet has a large and increasingly wealthy domestic market.

The price of renting a top grade office in the first quarter of 1994 was $176 per square metre per year, compared with *$1,020 in Hong Kong* and $307 in Singapore.

But trying to work out where to set up shop in Bangkok's sprawling chaos can be a tough decision given the dire consequences of becoming committed to a property half a kilometre beyond the wrong set of traffic lights; you could condemn your colleagues to years of having to leave mid-morning *for a lunch appointment.*

Nevertheless during the 1990s the accelerating movement of previously scattered businesses towards certain focal points revealed the outlines of a central business district (CBD) at the heart of the Bangkok metropolitan area – which is one-and-half times the size of Hongkong or seven times the size of Singapore.



Property consultants differ over the exact dimensions of the CBD but most agree that it is bounded in the north by Ploenchit Road (and the British Embassy) and sweeps southwest, stopping some way short of the river.

"We are starting to see a very definite congregation of finance and services type companies in this area. But only in a specific number of buildings which shows that quality is becoming important too," says Mr Paul Scales, Jones Lang Wootton's managing director in Bangkok.

WILLIAM BARNES describes how a central business district is emerging from the sprawling chaos of Bangkok as institutions start to gravitate towards certain focal points

Certainly, Silom Road, Sathorn Road and Wireless Road are important locations, even if the area – broken in two by Lumpini Park – is still *big by City of London standards.*

Even three years ago Thai investors appeared rather unconcerned about location. That has changed, and a feature of the property market in 1994 has been the phenomenal success of condominium projects within the CBD.

Rentals on the fringes of the developing financial district may be suffering because companies want to be in, rather than merely near, the CBD.

Thus Sukhumvit Road – traditionally the foreigners' ghetto – has fallen somewhat out of favour because of its particularly bad traffic, even though its western end links to the emerging CBD.

Prime rentals are lower on Sukhumvit than around the busy junctions of the Vibhavadi Rangsit and Phaholyothin roads in the north of the city where trading and automobile companies have gathered; such areas acquire their own hotels, entertainment areas and housing.

Similarly the riverside hotels risk losing business customers because their picturesque location is separated from the northern end of the *CBD* by frequent traffic congestion.

However, Bangkok Bank, south-east Asia's biggest financial institution, along with the Bank of Ayudhya, could drag other financial companies with them when they move to new headquarters sites by the river in about 1996.

Other casualties are the companies which were lured on to *the awkwardly placed Asoke* Road – a particularly congested route running off Sukhumvit – which was touted at the beginning of the decade as a new financial district.

■ POVERTY IN THE NORTH EAST

A diet of dung beetles

To liven up dreary nights Bangkok bars will sometimes hire a bizarre cabaret act: a couple of grossly overweight transvestites who stagger on to a makeshift stage, a writes WILLIAM BARNES.

Although this is a familiar routine the crowd roars with laughter as the two performers – *with impressive imitations* of advanced drunkenness – brightly explain the various unprintable things they will do for a pittance.

Welcome, you might say, to Isarn – the north-east of Thailand. What makes this cruel lampoon so dangerously funny for many Thais is that it contains more than a hint of the truth about the realities of life in Isarn.

For behind the rapid industrialisation of Bangkok and other urban areas there is another Thailand, one where – far from capital's gridlocked Mercedes, Volvos and BMWs – people sometimes supplement their meagre diet by eating such local delicacies as dung beetles and tadpoles.

Official statistics show that Thailand as a whole has done well in eradicating poverty, infected water and the other symptoms of third world misery. Latest figures show that the average per capita income in Bangkok is more than Bt13,000 per month.

But in Isarn, the figure is only Bt1,244. No area of the country is poorer than the arid north-east which accounts for a third of the land area and a third of the population. The Bangkok authorities only exercised effective sovereignty over this area of the country – historically a part of the Lao Kingdom – towards the end of the 19th century.

Over the last three decades economic planners have vaguely assumed that the local economy would prosper as a result of the dams and roads *that Bangkok built.*

Yet many inhabitants' lives appear as difficult as ever. The traditional rice farming supplemented by a little hunting and fishing has been badly disrupted by environmental damage.

Forest cover in Isarn has dropped from 43 per cent to 15 per cent in 25 years; salt mining and bad irrigation has *spoilt much good land. Farmers* – who rarely have proper land title – are sometimes thrown off the land to make way for eucalyptus plantations.

It is a sign of the population's frustration that communist insurgency in Isarn ended *only in 1980, and that some* villagers in this predominantly Buddhist country have converted to Christianity.

The failure of the Thai educational system is nowhere more painful than in Isarn. In Thailand as a whole, only a third of workers have more than the compulsory six years of what critics say is often mediocre schooling, but in Isarn the real figure is believed to be much lower than the national average. The education system is seen as having little relevance to life's harsh realities. Illiteracy is high.

Yet almost every villager nowadays has access to a television set which emphasises how good life is in Bangkok.

Villagers will often borrow money – not from banks to whom they can offer no collateral – but from money lenders. The result is more misery.

Most children are packed off to work by their middle teens as labourers, factory workers or worse, only to be discarded in their mid-20s when they can no longer gut chickens or polish gems fast enough.

Barely educated, unsophisticated in the ways of the city and dark compared with the pale-skinned Sino-Thais, many *Isarn migrants are prey to* prejudice and entrepreneurial vultures.

There could be 2m Isarn workers living in Bangkok slums or on the eastern seaboard industrial complex; no-one really knows because they remain on the electoral roll of their old village.

Even Thailand's modestly sophisticated economy appears to have a limited use for an undereducated workforce: over the last six years of very high economic growth the total number of Thais working overseas has climbed sharply from 268,000 in 1988 to 430,700 this year.

Last year, Isarn workers abroad channeled $300m back to the north-east through the banking system; at least as much will have been carried back by hand. This money is important but it simply serves to emphasise Isarn's role as a cheap labour pool and a "home" for workers (who may in any case never return to live in their old villages after so many years away).

The post-communist opening up of Indochina should bring more trade and business to Isarn although the current *proposals for new transport* links – such as a highway from Isarn through to Danang on the Vietnamese coast – may not be the panacea that is sometimes suggested.

The current Thai government is pouring billions of baht into economic development in the region, but private investors are harder to attract.

There seems little hope that more than a handful of big manufacturers will be lured into the region soon given its dearth of skilled labour; half the $2bn private investment that went into Isarn last year went into Nakhon Ratchasima, a town on the edge of the region and the nearest to Bangkok.

"The villagers complain that the manufacturers we bring in only want to exploit them. But frankly what do they expect – I don't think we are going to see many aerospace manufacturers down here," says Mr Sukich Maneethirapattanakul, director of the Regional Development Centre in Khon Kaen, a government think tank.

In Khon Kaen, a bustling Isarn market town, several local businessmen proudly said that this was the fishing net manufacturing centre of Thailand. This is a dubious honour: the Isarn Friends of Children, a charitable organisation, recently found children working in the fishing net factories for less than $2 a day.

Mr Amnuay Viravan, a former deputy prime minister and banker who will contest *the next election in Khon* Kaen on behalf of his newly formed Nam Thai political party, is more optimistic.

"I knew the north-east 35 years ago – believe me things have improved enormously. Now I think Isarn can join the economic mainstream – its people are tough enough and hardworking enough to overcome the problems," he said.

For centuries before Bangkok claimed control of the region power lay in the hands of the most influential local families. Little has changed, and the rural poor cannot look to Thailand's corrupt police force for support.

In election after election, political parties have bought their way into power by bribing the desperate and malleable voters in the north-east with cash or promises.

One Khon Kaen social activist, who asked not to be named, said that education was the key to unlocking the grip of corrupt local government on Isarn's future: "How can someone who doesn't even read decide which politicians will do more than try to fill his own pockets?"

Indecisiveness hampers vital public works, says **Peter Montagnon**

Traffic jams and bottlenecks

Few people who have struggled to meet an appointment through Bangkok's gridlocked traffic would disagree with the *proposition that Thailand's* infrastructure is in a mess. Such is the pace of development, and so wholly absent a co-ordinated transport policy, that the roads simply cannot cope with an ever increasing volume of cars.

Yet the long-suffering Thais themselves are strangely accepting of the situation. Politicians from the Bangkok region say traffic tops voter concern, but still the pressure is not such as to force the government to act. Perhaps the infrastructure *problems matter less in the short run than* outsiders at first sight imagine. Or perhaps everyone knows there is little the government can do.

Both thoughts contain a grain of truth. With an economic growth rate expected to be in the region of 7 to 9 per cent over the next couple of years, there is little discernible impact yet on the economy from infrastructure bottlenecks. The *traffic* jams in Bangkok are highly conspicuous, but elsewhere the road network is good. If congestion in the capital causes growth to shift to the provinces, then, some would argue, so much the better. Development of the national economy would be better balanced.

The real problem concerns Thailand's ability to make sensible decisions for the longer term. Unless the government can secure an efficient infrastructure, the *country's competitive advantage could disappear.* Thailand would find it hard to attract productive investment if a poor infrastructure made doing business just at the time when cheap labour from nearby Indochina was coming on stream.

Unlike many developing countries Thailand has no need to sell off state enterprises at fire sale prices to cover its budget deficit. Indeed with government finances in surplus that particular question simply does not arise. Instead its privatisation programme has been driven more by the need to make state enterprises more efficient and to co-opt private capital for the expensive investments that inevitably lie ahead.

The World Bank has suggested that as much as $12bn a year could need to be spent on the infrastructure for the next five years. "A major concern is that sec*toral reform ensures that existing effi*ciency is maintained and guarantees that huge infrastructural investments .... can be financed and implemented in a timely

□ Continued on next page

■ Interview: PRIME MINISTER CHUAN LEEKPAI talks about his aims, hopes and fears

'Our democracy is on trial'

MR CHUAN LEEKPAI, the Thai prime minister and Democrat Party leader, has surprised his political allies and enemies alike by surviving at the head of a fragile five-party coalition government for more than two years; if he continues for another two years this would be the first time a democratically-elected government in Thailand – a country notorious for coups d'etat – has completed a full term in office. But some of his critics say Mr Chuan has survived merely by avoiding hard decisions.

Recently the coalition's Palang Dharma party fired its cabinet ministers, including the foreign minister, and imposed a new batch of ministers on Mr Chuan.

VICTOR MALLET and PETER MONTAGNON asked Mr Chuan how he coped with this and other issues.

Q: How do you deal with this political system where you are not able freely to choose your own cabinet? What is your style of government?

PRIME MINISTER: I know that it's a very difficult system but I think Thailand will have to live with coalition governments for quite some time, so we must try not to make that weakness a limitation on the ability of a coalition government to work and last.

I think a democratically elected government has to prove that it can work efficiently, that it can handle the problems of the country quickly without giving in to mob rule or influential groups. From my experience I believe that some governments tend to create excitement for the media and the people to satisfy them in the short term but in the end create more problems for the government. I was determined not to have that happen, which I think is the reason why we were heavily criticised during our first months.

As for the reshuffle in the Palang Dharma party that was not something that was the wish of the government; it was

Chuan Leekpai: we must not yield to mob rule or influential groups

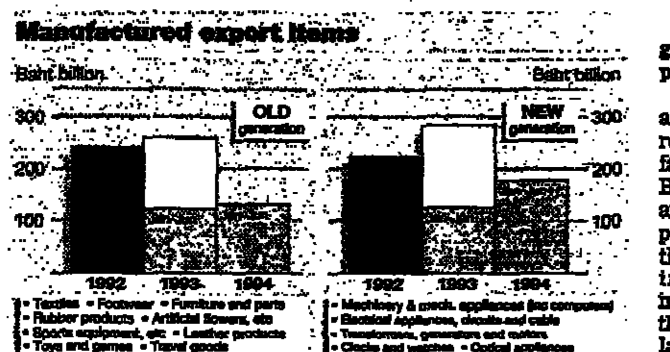
to do with the internal problems of the party. And we have a kind of gentleman's agreement that on matters of personnel we would leave it to the judgments of individual parties unless there are very, very good reasons for me to exercise a veto right. Some of these changes will force me to work harder because a lot of the ministers will have to start from the beginning, but it's necessary to keep the administration going and I think that despite the anxiousness of the people in general about these changes we can carry on working together.

Q: But the government is criticised for not being decisive enough in tackling problems, such as Bangkok's traffic. What decisions are you taking?

The traffic problem is not a new problem. It didn't start with this government and it's a result of past neglect. As for old [mass transit] projects with contracts already signed, we may or may not agree with these projects but we have no other option but to support their implementation, otherwise there will just be more delays and the problem that the government would be breaking the contract. Over the last two years, there are many projects and measures that we are implementing, otherwise the traffic would be much worse than it is today...

We are the first government to focus on the decentralisation of economic activities and therefore help ease the growth of Bangkok. By creating jobs in rural areas we have managed to prevent about 100,000 or 200,000 people from migrating to Bangkok.

The decentralisation policy I think will be seen as a success clearly in the next two to three years when the growth of Bangkok will be reduced and



Source: TDRI

factories in Bangkok will be moved out. The decentralisation we're talking about is on all fronts, not just political power but for instance education, financial institutions, these are all going to be decentralised and we will not allow Bangkok to grow the way it's done in the past.

Q: What effect will the shortcomings of the education system have on Thailand's competitiveness?

During the last two years we've now managed to extend education so that about 92 per cent of primary school leavers in the latest educational year are going on to secondary school. And I believe that although we do have problems it is within our capabilities to upgrade our education system and remain competitive. But there are shortages in some areas, such as engineers and the sciences. We have too many social science graduates.

Q: What will Thailand have to offer Thai or foreign investors that can't be found more cheaply in the future in other Asian countries?

The fact that companies like Toyota, Honda, Mitsubishi, even Chrysler decided to choose us as a centre for their production shows that they see some advantages. So if the tax system is quite favourable and other factors are comparable, we have an opportunity. We are quite a big market here with 60m people and also with considerable purchasing power, and geographically we are at the centre of the south-east Asian region. And the established market system that we have had for a long time and a democratic form of government will also be contributing factors. The one weakness we may have is that we've never been a colony so we're not very good at foreign languages.

Q: How are you tackling the growing gap between rich and poor?

It is true that in Thailand and other countries in the region the tax system has failed to catch the rich people. But overall during the last one and a half years the group of people who are the poorest – the farmers – have had their incomes considerably increased. And we have helped the very poorest, that is the landless farmers. We have managed to push our land reform programme. That is the most perceptible change that we have created in rural areas.

We're not going as far as these schemes in European countries. We're merely supporting farmers to be able to stand up on their own with the supplementary income; and their children will be absorbed by the growth of the industrial sector so the proportion of people employed in the agricultural sector will be steadily reduced. It's just that those who remain must be able to make a living. We have allocated budget for three years now – 69 per cent of the budget will now go to rural areas.

We have to continue the trend of allocation in the budget and because the fiscal position is rather healthy we have some room for manoeuvre for this purpose. We will stick to these priorities and we hope that the next government would then continue and may see results. In any case we will put this objective in the eighth development plan in a way that would, I guess, commit future governments to this course. I think the approach is broadly accepted and there is very little opposition – it just depends on the determination of the people who come in to implement it, because usually the people who form policies are based in Bangkok.

Q: At the half-way point, how do you rate your chances of being the first elected government to survive a full four-year term?

In a parliamentary system, parliament can always dissolve and there could always be changes. For a coalition government made up of five political parties, I'm satisfied with two years. For the remaining time it's important to support the system. Once the system is widely accepted any future changes will then go according to democratic rules. I can assure you that there will be no extra-constitutional forces leading to the fall of this government – that is what I've been determined to maintain.

Q: Some say this would be a good time for you to call an election. Do you think so?

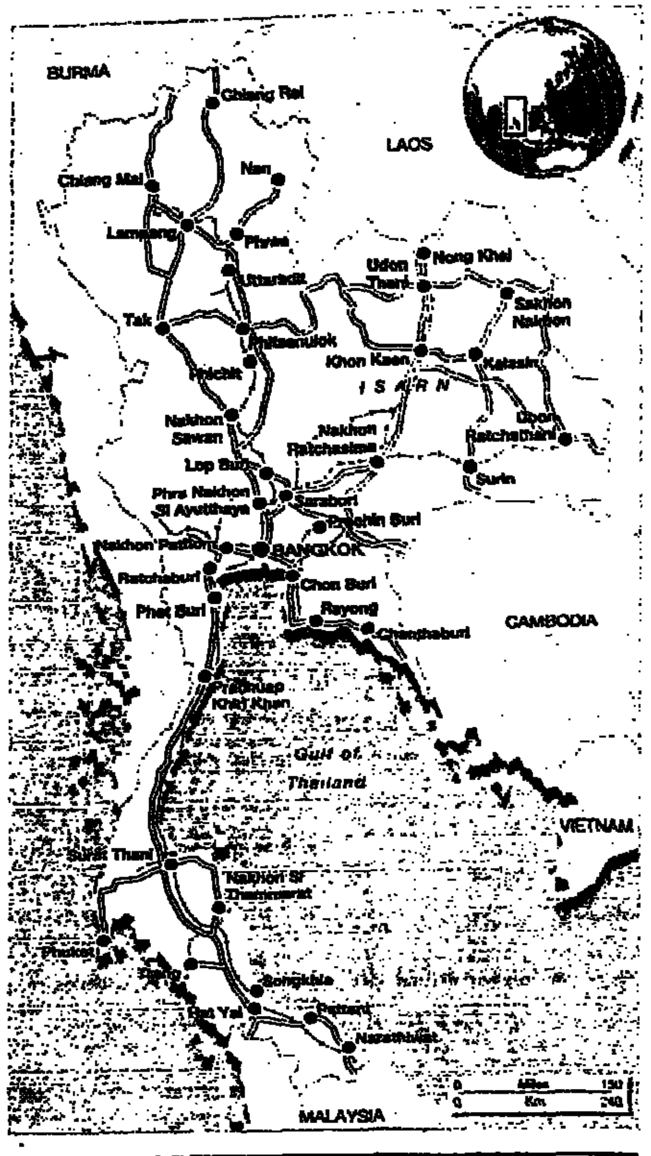
I know that generally there are such feelings, but whatever we have we don't have enough money to fight some of the other parties in some areas. So I'm not thinking of dissolution at the moment. I'm trying to think how to fight vote-buying in the future. This problem will get worse. I've been in politics for 25 years and I can see the trend. There is more vote-buying now.

Q: Why is that? Isn't Thailand becoming wealthier and more sophisticated?

Because there are more businessmen in politics. In the past they used to be lawyers and teachers and these are not people who buy votes. There are more businessmen and some of these people believe money can buy everything so they use the buying system. That is a cause for concern.

Q: Have you been able to reduce corruption in general?

I'm trying very hard. The majority of the cabinet attach great importance to this but we are worried about officials at lower levels particularly with the budget for rural areas.



KEY FACTS

Area		513,120 sq km
Population		58.3 million
Head of state		King Bhumibol Adulyadej
Currency		Baht (Bt)
Average exchange rate		1993 \$1=Bt25.32; 28/11/94 \$1=Bt25.04

ECONOMY

	1993	1994*
Total GDP (\$bn)	123.7	n.a.
Real GDP growth (%)	7.8	8.2
GDP per capita (\$)	2,120	n.a.
Consumer prices (% pa)	3.3	5.8
Reserves minus gold (\$bn)	24.5	29.0
Stock market (% change over year)	+88.4	-20.2
Total external debt (\$bn)	38.7	43.2
Current account balance (\$bn)	-7.3	-7.1
Exports (\$bn)	36.4	42.1
Imports (\$bn)	40.7	46.3
Trade balance (\$bn)	-4.3	-4.2
Main trading partners (1993, %)	Exports	Imports
Japan	17.2	30.4
USA	21.7	11.5
Singapore	12.1	6.5
Germany	4.0	5.4
Development indicators	15-20 yrs ago	latest estimate
Population growth rate (% pa)	2.7	1.5
Infant mort.rate (per 1,000 live births)	55.0	26.0
Life expectancy (years)	60	69
Population per physician	8,394	4,497
Dependency ratio**	0.92	0.58
Urban population (% of total)	15.1	23.5
Agriculture as % of GDP	26.9	11.9
Adult illiteracy (% aged 15+)	21.0	7.0

* = EIU and ADB estimates except CPI (Oct), reserves (Sept) and stock mkt (% change from 31/12/93 to 28/11/94). ** = Ratio of dependent population (aged under 15 or over 64) to working age population (aged 15-64).
Source: IMF, World Bank, Datastream, Economist Intelligence Unit, Asian Development Bank, Bank of Thailand, Thai Govt.

Infrastructure paralysis

□ Contd from previous page
manner," the bank said in report last month.

At this point the real problems begin. "Thailand's economic management has been very strong on the macro side: it has been absolutely lousy on the micro," says Mr Ammar Siamwalla of the Thailand Development Research Institute.

"The problem with infrastructure has nothing to do with lack of capital. It's much more the lack of capability of public decision-making."

To be fair, Thailand's record is not all bad. Egat, the electricity authority, has a long tradition of good technical management with the result that the power supply, though hardly cheap, has been reliable. There has been a notable improvement in the telephone service since the government pushed the two state operators – the Communications Authority of Thailand which deals with international calls and the Telephone Organisation of Thailand which serves the domestic market – into granting concessions to private operators.

The snag is that the underlying legislation is not adapted to such an approach. The state enterprises retain basic monopoly rights which creates uncertainty for the private operators. Reshuffling of the concessions after they were granted on the grounds that one of the private operators, TelecomAsia, stood to earn too much looked arbitrary and capricious. At best it was a reminder that there is no coherent and predictable regulatory framework.

A number of other developments compound the impression of regulatory weakness.

- Egat retained a controlling interest in the generating company EgCo when it was privatised recently. The World Bank has recommended that Egat reduce its stake in EgCo to below 50 per cent as soon as possible.
- The Japanese company Kumagai Gumi was squeezed out of Bangkok's second expressway consortium in March after it had been built – and after it had become clear that the road would be much more profitable than originally expected.
- The fiasco over Bangkok's proposed mass transit system continues. Contracts have been signed by three separate authorities with three separate operators. Hopewell, the Hong Kong construction company controlled by Mr Gordon Wu, is working with Thailand's state railways. Bangkok Land is working with a sub-division of the Ministry of the Interior and another local company, Tanayong, is working with the Bangkok Metropolitan Authority.

None of the projects is designed to interconnect, but since contracts have been signed, the government cannot easily scrap the whole thing and start again from scratch.

The common thread running through all these cases is the need first for co-ordinated planning to ensure that the public receives the services it requires, and second to establish a regulatory system that will prevent abuse of monopoly power in sectors where competition will always be limited. Such a prescription may seem a tall order for a developing country. Even in the UK, which has considerable experience of regulating privatised utilities, regulation seems flawed at times. But the Philippines is attempting to tackle the monopoly question. It is ultimately essential if the private sector is to take a significant role in the provision of infrastructure.

That poses several difficulties for Thailand. One is that many state enterprises are profitable in their own right and their managements are highly paid. They will not open themselves up to competition easily, as the case of Egat has shown.

Another is that Thailand's consensus approach to coalition lacks the single-mindedness needed for firm and impartial regulation. The peculiar history of the Bangkok mass transit suggests that the coalition only works because all the vested interests are allowed to have their say, despite the inherent contradictions.

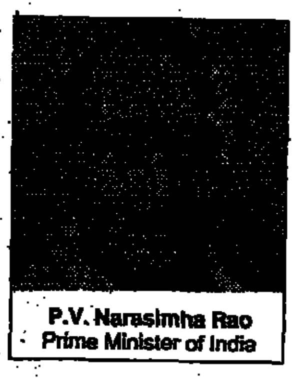
Democracy has survived in that way for two years now. At least where the infrastructure is concerned, the task for the next two may lie in making order out of chaos.

هكذا من الأصل

INDIA

A PROFILE OF BUSINESS OPPORTUNITIES.

PRESENTING MAJOR OPPORTUNITIES FOR THE INTERNATIONAL BUSINESS STRATEGIST



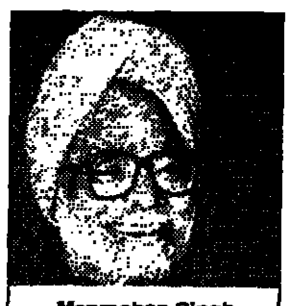
P.V. Narasimha Rao
Prime Minister of India

"Forward with liberalisation"

" India, today, is a vibrant economy responding to the needs of the international business community and creating an environment conducive to investments. Thus paving the way for mutually beneficial, long lasting associations."

The economic reforms program steadfastly continued since 1991,

- ***"is tailormade for the Indian scenario."***
- ***"provides an extremely lucrative business environment for the investors worldwide."***
- ***"has been phased yet continuous."***



Manmohan Singh
Finance Minister of India

"Integrating the economy with the international mainstream"

"India has always been determined to provide a hospitable and profitable environment for foreign direct investment inflows. The current economic scenario in the country and the massive response generated in terms of FDI inflows amply prove the success of these reform measures."

Through these liberalisation measures,

- ***"a new era of efficiency is being ushered into the country."***
- ***"a constant effort is being made to integrate the economy with the international mainstream."***
- ***"a viable macroeconomic environment is being established for sustained overall development."***

Today, the extent and pace of reforms being undertaken by India has convinced the world business community that India means business.A host of multinationals have set base in India to take advantage of the lucrative business environment. An environment created by an economy that is market-led, investor friendly and sensitive to the needs of the international investing community. As a spring-board to the gigantic market called Asia.

THE INDIA OPPORTUNITY

POWER.
- Entry of private sector allowed for generation and distribution.
- 100% foreign equity allowed.
- 5 year tax holiday.
- Permission to set up hydel, thermal or wind/solar energy projects of any size.

DRUGS AND PHARMACEUTICALS.
- New Drug Policy formulated.
- Most bulk drugs and their formulations delicensed.
- List of price controlled drugs halved.
- Higher rate of return for price controlled drugs.

TELECOM.
- Entry of private sector allowed for basic telecom services.
- Foreign equity allowed subject to certain conditions.
- Manufacture of telecom equipment delicensed.
- E-mail, voicemail, cellular mobile phones, radio paging, data services, video conferencing etc opened up for private sector investment *subject to certain guidelines.*

PETROLEUM.
- Private sector bidding for oil exploration invited.
- Private sector allowed in the lubricants industry.

AUTOMOBILES.
- Motor car industry delicensed.
- Time bound indigenisation rules abolished.
- Up to 51% foreign equity participation allowed.

CIVIL AVIATION.
- Private sector allowed to operate domestic airlines.
- Foreign equity in private sector domestic airlines up to 49% to be approved on a case by case basis.
- Privatisation of airports being considered.

WHITE GOODS.
- *Industry delicensed.*
- Up to 51% foreign equity participation allowed.

ROADS AND HIGHWAYS.
- The *private sector permitted to* finance, construct, maintain and operate identified roads, *highways and bridges.*
- Also allowed to levy a toll fee for the roads constructed by them for a certain period after which the control would come to the government.

THE INDIA ADVANTAGE

HEAVYWEIGHTS ALL

With liberalisation, India has witnessed the arrival of some of the world's best-known names.

The power sector now has international players who have further energised the industry like
- *ENRON ● COGENTRIX ● ST POWER*

In the telecom sector, many giants have either entered this mega market or taken steps to expand their operations. To mention a few
- ALCATEL ● AT&T ● SPRINT ● ERICSSON ● NKT.

The oil, natural gas and lubricants sector features international names which are not alien to India anymore
- MOBIL ● CALTEX ● SHELL ● ELF ● TOTAL ● PENNZOIL ● GULF ● MOTOROL ● MOTUL

The automobile industry - after it was delicensed , attracted well known car manufacturers from overseas.
- GENERAL MOTORS ● PEUGEOT ● CHRYSLER ● DAEWOO ● DAIMLER BENZ ● ROVER ● FORD.

In the civil aviation sector world renowned names have made successful landings in the country.
- *LUFTHANSA ● MALAYSIAN AIRLINES*

With the mutual funds operations being *opened for the private sector, international* investment companies perceive India as a great opportunity. Some of the top international financial giants are here already
- MORGAN STANLEY ● MERRYL LYNCH ● PEREGRINE ● JARDINE FLEMING ● SOROS

With the restrictions on opening of private sector banks removed, many new banks have opened. Some of these include
- INDUSIND BANK ● UTI BANK ● ING BANK ● ICICI BANK.

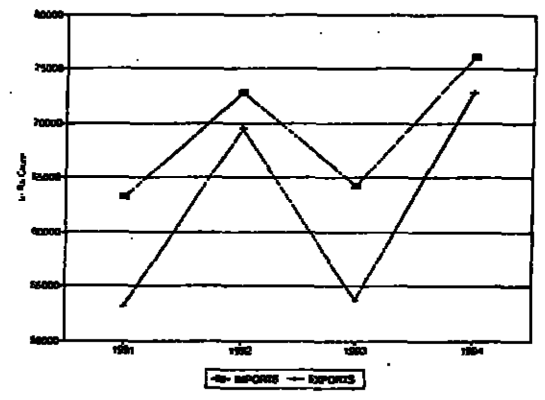
The financial sector has been enhanced further with the entry of Broking and Investment firms like
- BARCLAYS ● JARDINE FLEMING.

The Indian government's decision to allow consumer product MNCs to own 51% equity has lured popular international giants like
- PEPSI ● COKE ● HEINZ ● SONY ● KELLOGGS ● KENTUCKY FRIED CHICKEN ● REVLON ● WRIGLEYS.

ACHIEVEMENTS. A REVIEW

INDIAN EXPORTS - ON THE UPSWING

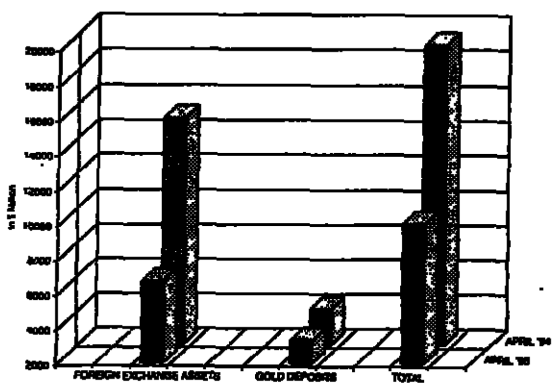
● Spectacular performance of Indian exports. Exports increased from Rs.53,688 crores in 1992-93 to 72,806 crores in 1993-94, an increase of 35%.



FISCAL DEFICIT - UNDER CONTROL

● Fiscal deficit has come down from 8.4% of GDP in 1991-92 to 5.6% in 1993-94. The government is *confident that this will be brought down to* 4% by 1996-97.

COMFORTABLE FOREIGN EXCHANGE RESERVES



● The country has recieved $4.16 billion worth of foreign investment since 1991 when the liberalisation measures were initiated. 57% of these approved *projects are already* on stream.

● By April 1994, 130 companies plan to launch a total of $11.7 billion worth of GDR's and bonds.

Indian Euroissues will continue to interest foreign investors in the Euromarket as industry specific funds are hungry for Indian GDR's in the sunrise industry.

● *Industrial growth is one of the highest among* countries under the transition phase of their economies.

● Higher excise, customs revenue collections in spite of lowering of the tariff structure reconfirms the surge in the economy as a lower tariff structure has led to greater incentives for production which has resulted in greater collections.

EXCISE AND CUSTOMS REVENUE COLLECTIONS

	1994-95	1993-94
(for the first half of the respective financial year)		
Excise	17,065	14,208
Customs	11,666	10,085

(Figures in Rs. Crores)

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Dec 2 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Dec 2 / Frs.)

[illegible]

DENMARK (Dec 2 / Kr)

[illegible]

FINLAND (Dec 2 / Mka)

[illegible]

FRANCE (Dec 2 / Frs.)

[illegible]

GERMANY (Dec 2 / Dm.)

[illegible]

ITALY (Dec 2 / Lire)

[illegible]

NETHERLANDS (Dec 2 / Fls.)

[illegible]

NORWAY (Dec 2 / Kroner)

[illegible]

SPAIN (Dec 2 / Pts.)

[illegible]

SWEDEN (Dec 2 / Kronor)

[illegible]

SWITZERLAND (Dec 2 / Frs.)

[illegible]

PACIFIC

JAPAN (Dec 2 / Yen)

[illegible]

HONG KONG (Dec 2 / H.K.$)

[illegible]

MALAYSIA (Dec 2 / MYR)

[illegible]

SINGAPORE (Dec 2 / S$)

[illegible]

AUSTRALIA (Dec 2 / Aust$)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Dec 2 / Can $)
4 pm close

[illegible]

MONTREAL (Dec 2 / Can $)
4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Dec 2 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1994, except Toronto & Montreal (daily). ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all.

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■ TOKYO - MOST ACTIVE STOCKS: Friday, December 2, 1994

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Nippon Steel	5.4m	366	-8	NKK	3.1m	264	-3
Hitachi	3.6m	978	+3	Mitsubishi Hvy	2.7m	735	
Sumitomo Mtl Ind	3.4m	313	-7	Toshiba	2.7m	710	+9
Itochu	3.3m	688	-14	Kayaba Ind	2.5m	659	-1
Kawasaki Steel	3.1m	406	-9	Nisshin Steel	2.3m	477	-2

INDICES

	Dec 2	Dec 1	Nov 30	1994 High		1994 Low	
Argentina							
General (29/12/77)	17696.13	17696.18	17929.20	25470.49	16/2	16752.81	28/11
Australia							
All Ordinaries(1/1/80)	1880.1	1900.4	1890.7	2340.60	3/2	1857.10	23/11
All Mining(1/1/80)	937.9	951.5	945.0	1138.10	3/2	894.60	5/5
Austria							
Credit Aktien(30/12/84)	388.59	386.64	389.14	468.66	2/2	376.94	25/10
Traded Index(2/1/91)	1038.35	1032.89	1038.18	1222.25	1/2	1011.38	6/6
Belgium							
BEL20 (1/1/91)	1409.02	1406.32	1409.56	1642.65	9/2	1338.39	7/10
Brazil							
Bovespa (29/12/83)	45254	48523.0	48580.0	55110.80	13/9	3800.90	3/1
Canada							
Metals Mnls♦(1975)	4042.58	3936.98	3921.40	4278.02	20/10	3299.68	20/4
Composite♦ (1975)	4093.00	4082.40	4093.40	4609.90	23/3	3869.90	24/6
Portfolio§§ (4/1/83)	1994.23	1983.91	1983.53	2182.69	1/2	1866.48	28/6
Chile							
IPGA Gen (31/12/80)	5540.3	5622.8	5596.6	5754.40	21/11	3801.20	4/4
Denmark							
CopenhagenSE(3/1/83)	342.46	343.05	342.58	415.78	2/2	337.19	8/11
Finland							
HEX General(28/12/90)	1864.2	1865.6	1848.2	1972.09	4/2	1601.16	3/1
France							
SBF 250 (31/12/90)	1305.90	1299.84	1303.53	1585.20	2/2	1227.86	25/10
CAC 40(31/12/87)	1982.71	1963.95	1975.94	2355.93	2/2	1824.42	25/10
Germany							
FAZ Aktien(31/12/58)	769.33	769.90	769.52	859.27	18/5	742.04	5/10
Commerzbank(1/12/53)	2191.9	2192.8	2190.8	2465.50	2/5	2116.30	5/10
DAX (30/12/87)‡	2038.51	2046.59	2048.26	2271.11	18/5	1960.59	7/10
Greece							
Athens SE(31/12/80)	854.14	836.89	846.62	1194.58	18/1	804.37	22/11
Hong Kong							
Hang Seng(31/7/64)	8221.56	8430.80	8496.25	12201.09	4/1	8221.56	2/12
India							
BSE Sens.(1979)	4077.49	4104.33	4124.18	4628.87	12/9	3454.00	5/1
Indonesia							
Jakarta Comp.(10/8/82)	471.05	482.13	482.63	612.89	5/1	449.72	12/7
Ireland							
ISEQ Overall(4/1/88)	1607.29	1624.37	1617.33	2082.18	20/1	1694.14	1/7
Italy							
Banca Comm Ital (1972)	631.45	632.89	625.72	847.17	10/5	598.65	10/1
MIB General (4/1/94)	1022.0	1024.0	1013.0	1318.00	10/5	944.00	10/1
Japan							
Nikkei 225 (16/5/49)	18998.30	19013.60	19075.62	21552.81	13/6	17369.74	4/1
Nikkei 300 (1/10/82)	279.22	279.74	280.08	311.71	13/6	268.22	4/1
Topix (4/1/68)	1515.85	1519.20	1520.41	1712.73	13/6	1445.97	4/1
2nd Section (4/1/68)	2100.97	2098.98	2090.45	2542.65	6/7	1873.35	4/1
Malaysia							
KLSE Comp.(4/4/86)	977.74	988.13	1013.13	1314.46	5/1	938.33	4/4
Mexico							
IPC (Nov 1978)	(u)	(c)	2591.34	2881.17	8/2	1957.33	20/4
Netherland							
CBS TtlRtnGen(End 83)	436.8	434.8	437.0	454.90	31/1	408.30	21/6
CBS All Shr (End 83)	274.0	272.8	274.2	294.80	31/1	257.90	21/6
New Zealand							
Cap. 40 (1/7/86)	1942.58	1978.08	1990.97	2430.64	3/2	1942.58	2/12
Norway							
Oslo SE Ind(2/1/83)	1100.56	1081.73	1081.28	1211.19	28/2	888.91	21/6
Philippines							
Manila Comp (2/1/85)	2596.75	2845.38	(c)	3308.37	4/1	2507.33	9/3
Portugal							
BTA (1977)	2959.0	(c)	2956.6	3228.60	18/2	2812.80	20/6
Singapore							
SES All-S'pore(2/4/75)	530.10	538.61	541.01	641.61	4/1	523.29	4/4
South Africa							
JSE Gold (28/9/78)	1910.1♥	1928.5	1974.1	2534.00	7/9	1749.00	14/2
JSE Indl. (28/9/78)	6875.5♥	6907.2	6898.4	6984.10	22/11	5446.80	19/1
South Korea							
KoreaCmpEx(4/1/80)**	1053.63	1068.21	1074.41	1138.75	8/11	855.37	2/4
Spain							
Madrid SE (30/12/85)	301.92	300.53	301.56	368.31	31/1	288.85	26/10
Sweden							
AffarsverldnGen (1/2/37)	1468.9	1469.5	1506.8	1803.90	31/1	1334.70	6/7
Switzerland							
Swiss Bk Ind (31/12/58)	1210.77	1210.63	1218.12	1423.34	31/1	1138.72	27/10
SBC General (1/4/87)	913.16	913.27	919.31	1093.29	31/1	876.57	27/10
Taiwan							
WeightedPr.(30/6/66)**	6478.82	6444.05	6363.72	7191.33	30/9	5194.63	19/3
Thailand							
Bangkok SET (30/4/75)	1338.11	1371.60	1362.44	1753.73	4/1	1198.69	4/4
Turkey							
Istanbul Cmp.(Jan 1986)	29145.10	28427.2	28181.0	29145.10	2/12	12869.70	24/3
WORLD							
MS Capital Int (1/1/70)§	605.0*	606.9	613.7	649.90	2/11	591.69	4/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	1342.92	1344.45	1341.95	1540.19	31/1	1286.48	5/10
Euro Top-100 (26/6/90)	1178.38	1179.15	1184.19	1311.01	2/2	1136.48	5/10
JCapeDrgns (31/12/88)	(u)	305.47	307.99	395.19	5/1	298.28	21/3
Barings Emerg.(7/1/92)	171.85	173.46	174.38	191.79	28/9	141.65	21/4

■ CAC-40 STOCK INDEX FUTURES (MATIF)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Dec	1970.0	1989.0	+17.0	1990.0	1968.0	20,099	32,206
Jan	1978.5	1998.5	+17.0	1995.0	1978.5	26	719
Mar	1996.5	2014.5	+17.0	1999.0	1994.5	181	7,486

Open interest figures for previous day.

** Sat Nov 26: Taiwan Weighted Price 6439.65; Korea Comp Ex 1081.45. Base values of all Indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours Index: Dec 2 - 2042.38 -3.16

US INDICES

Dow Jones	Dec 2	Dec 1	Nov 30	1994 High	1994 Low	Since compilation High	Since compilation Low
Industrials	3745.62	3700.87	3739.23	3978.36 (31/1)	3593.35 (4/4)	3978.36 (31/1/94)	41.22 (2/7/32)
Home Bonds	(u)	93.83	94.12	105.81 (21/1)	93.61 (28/11)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	1436.40	1431.04	1443.39	1862.29 (2/2)	1422.19 (23/11)	1862.29 (2/2/94)	12.32 (8/7/32)
Utilities	179.41	177.04	178.54	227.88 (3/1)	173.94 (22/11)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 3755.04 (3755.37) Low 3690.68 (3690.68) (Theoretical♦)
Day's high 3746.29 (3743.26) Low 3690.44 (3690.44) (Actual♦)

Standard and Poors	Dec 2	Dec 1	Nov 30	1994 High	1994 Low	Since compilation High	Since compilation Low
Composite ‡	453.30	448.92	453.69	482.86 (2/2)	438.92 (4/4)	482.90 (2/2/94)	4.40 (1/6/32)
Industrials♥	536.94	533.72	539.66	563.10 (28/10)	510.05 (21/4)	563.19 (28/10/94)	3.62 (21/6/32)
Financial	41.26	40.75	41.04	48.94 (14/6)	39.87 (22/11)	48.40 (28/9/93)	8.64 (1/10/74)
NYSE Comp.	248.01	246.04	248.41	267.71 (2/2)	243.14 (4/4)	267.71 (2/2/94)	4.46 (25/4/42)
Amex Mkt Val	432.46	431.19	433.86	487.89 (2/2)	422.67 (28/6)	487.89 (2/2/94)	29.31 (9/12/72)
NASDAQ Cmp	745.02	740.61	750.32	803.93 (18/3)	693.79 (24/6)	803.93 (18/3/94)	54.87 (31/10/72)

■ RATIOS

	Nov 25	Nov 18	Nov 11	Year ago
Dow Jones Ind. Div. Yield	2.87	2.79	2.78	2.72
	Nov 30	Nov 23	Nov 16	Year ago
S & P Ind. Div. yield	2.46	2.48	2.38	2.40
S & P Ind. P/E ratio	18.42	18.29	19.03	27.14

■ STANDARD AND POORS 500 INDEX FUTURES $500 times index

	Open	Sett	Change	High	Low	Est. vol.	Open int.
Dec	449.05	453.90	+4.90	453.90	447.55	97,885	195,046
Mar	452.00	457.05	+5.05	457.05	450.90	13,171	66,054
Jun	456.00	461.15	+5.05	461.15	455.10	623	5,133

Open interest figures are for previous day.

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Wal-Mart	4,745,000	22½	—
RJR Nabisco	4,458,100	6⅛	-⅛
British Steel	4,387,800	24¼	-¼
Santa Fe	4,216,300	16⅜	-⅜
Best Buy Co	3,574,200	33¾	+⅞
Amer T & T	3,429,100	48¼	-⅜
Ford Motor	3,048,400	27⅛	+⅛
Telefonos	2,829,200	52⅜	+⅞
Chrysler	2,475,500	46½	+¾
Parker Drill	2,355,600	4⅜	-⅛

■ TRADING ACTIVITY

● Volume (million)

	Dec 2	Dec 1	Nov 30
New York SE	284,745	282,296	298,658
Amex	14,761	16,988	19,084
NASDAQ	(u)	252,799	301,048
NYSE			
Issues Traded	2,915	2,928	2,944
Rises	1,425	675	1,268
Falls	870	1,553	990
Unchanged	620	700	686
New Highs	4	8	23
New Lows	120	135	90

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Indl. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Dec 2		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.3614	+0.0079	436 - 592	17.3797	17.3361	17.3471	0.3	17.3352	0.4	-	-	114.9
Belgium	(BFr)	50.6295	-0.0232	869 - 720	50.7660	50.5800	50.5995	0.7	50.5095	0.9	49.9645	1.3	116.5
Denmark	(DKr)	9.6198	-0.0213	153 - 243	9.6544	9.6148	9.621	-0.1	9.6246	-0.2	9.5981	0.3	116.6
Finland	(FM)	7.6263	-0.0072	161 - 365	7.6780	7.5990	-	-	-	-	-	-	87.3
France	(FFr)	8.4436	-0.004	403 - 468	8.4686	8.4370	8.441	0.4	8.4322	0.5	8.3607	1.1	109.7
Germany	(DM)	2.4610	-0.0029	600 - 620	2.4707	2.4600	2.4601	0.5	2.4559	0.8	2.4211	1.6	125.8
Greece	(Dr)	379.843	-0.247	402 - 884	380.573	378.902	-	-	-	-	-	-	-
Ireland	(I£)	1.0160	-0.0022	153 - 167	1.0202	1.0148	1.016	0.0	1.0154	0.3	1.0144	0.2	104.9
Italy	(L)	2525.00	-7.1	404 - 596	2535.71	2524.03	2531.3	-3.0	2540.95	-2.5	2581.45	-2.2	73.9
Luxembourg	(LFr)	50.6295	-0.0232	869 - 720	50.7660	50.5800	50.5995	0.7	50.5095	0.9	49.9645	1.3	116.5
Netherlands	(Fl)	2.7541	-0.0042	527 - 554	2.7656	2.7515	2.753	0.5	2.7487	0.8	2.7138	1.5	120.6
Norway	(NKr)	10.7090	-0.0194	999 - 077	10.7711	10.6827	10.7035	-0.1	10.7028	0.0	10.7002	0.0	96.0
Portugal	(Es)	251.604	-0.167	469 - 738	252.284	250.875	253.334	-8.3	256.514	-7.8	-	-	-
Spain	(Pta)	205.333	-0.261	248 - 418	206.210	205.242	205.698	-2.1	206.213	-1.7	208.849	-1.7	85.2
Sweden	(SKr)	11.7407	-0.0788	303 - 511	11.8726	11.7228	11.7597	-1.9	11.7922	-1.8	11.9472	-1.8	75.9
Switzerland	(SFr)	2.0759	-0.0088	740 - 765	2.0868	2.0740	2.0719	2.0	2.0648	2.0	2.0211	2.6	120.6
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	80.3
Ecu	-	1.2899	-0.0005	894 - 903	1.2934	1.2892	1.2898	0.1	1.2894	0.1	1.2816	0.6	-
SDR†	-	0.929914	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5589	-0.007	584 - 573	1.5678	1.5540	-	-	-	-	-	-	-
Brazil	(R$)	1.3375	+0.0054	364 - 386	1.3420	1.3382	-	-	-	-	-	-	-
Canada	(C$)	2.1404	-0.0148	396 - 412	2.1594	2.1395	2.1407	-0.2	2.1394	0.2	2.1382	0.1	86.5
Mexico	(New Peso)	5.3617	-0.0303	581 - 652	5.3976	5.3580	-	-	-	-	-	-	-
USA	($)	1.5598	-0.0074	594 - 601	1.5670	1.5575	1.5603	-0.4	1.5605	-0.2	1.5603	0.0	83.3
Pacific/Middle East/Africa													
Australia	(A$)	2.0266	-0.0137	255 - 277	2.0448	2.0234	2.029	-1.4	2.0335	-1.4	2.066	-1.9	-
Hong Kong	(HK$)	12.0694	-0.0509	659 - 728	12.1247	12.0643	12.0659	0.3	12.0733	-0.1	12.1401	-0.6	-
India	(Rs)	48.9628	-0.2847	340 - 715	49.2310	48.9260	-	-	-	-	-	-	-
Japan	(Y)	156.599	+0.913	517 - 661	156.860	155.410	156.149	3.4	155.234	3.5	149.899	4.4	188.2
Malaysia	(M$)	3.9903	-0.0163	886 - 920	4.0094	3.9881	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.4746	-0.0131	733 - 763	2.4882	2.4730	2.4814	-3.2	2.4924	-2.9	2.5306	-2.3	-
Philippines	(Peso)	37.7460	-0.1803	595 - 324	38.0200	36.9293	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8502	-0.0279	485 - 518	5.8770	5.8465	-	-	-	-	-	-	-
Singapore	(S$)	2.2953	+0.0003	942 - 988	2.3027	2.2926	-	-	-	-	-	-	-
S Africa (Com.)	(R)	5.5848	-0.0133	824 - 872	5.5879	5.5607	-	-	-	-	-	-	-
S Africa (Fin.)	(R)	6.4114	-0.1062	951 - 276	6.5397	6.3780	-	-	-	-	-	-	-
South Korea	(Won)	1235.40	-7.47	504 - 576	1242.28	1233.93	-	-	-	-	-	-	-
Taiwan	(T$)	41.0909	-0.1194	777 - 040	41.2779	41.0434	-	-	-	-	-	-	-
Thailand	(Bt)	39.1090	-0.1554	786 - 273	39.2770	39.0740	-	-	-	-	-	-	-

†SDR rates for Dec 1. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1985 = 100. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 2		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P Morgan index
Europe													
Austria	(Sch)	11.1245	+0.058	220 - 270	11.1270	11.0805	11.117	0.8	11.1005	0.9	11.003	1.1	104.2
Belgium	(BFr)	32.4600	+0.1395	400 - 800	32.5080	32.3650	32.4325	1.0	32.37	1.1	32.025	1.3	105.8
Denmark	(DKr)	6.1675	+0.0157	660 - 690	6.1795	6.1534	6.1648	0.5	6.1685	-0.1	6.1575	0.2	105.1
Finland	(FM)	4.8895	+0.0187	840 - 949	4.9058	4.8549	4.8847	1.2	4.88	0.8	4.868	0.4	81.7
France	(FFr)	5.4134	+0.0231	125 - 143	5.4250	5.3890	5.4101	0.7	5.4039	0.7	5.3524	1.1	106.0
Germany	(D)	1.5778	+0.0056	775 - 781	1.5812	1.5729	1.5767	0.8	1.5739	1.0	1.5518	1.6	108.7
Greece	(Dr)	243.400	+1	300 - 500	243.500	241.770	246.1	-13.3	250.85	-11.9	269.15	-10.6	68.2
Ireland	(I£)	1.5352	-0.0041	344 - 359	1.5405	1.5319	1.5357	-0.4	1.5362	-0.2	1.5352	0.0	-
Italy	(L)	1618.85	+3.17	880 - 910	1620.75	1615.20	1622.3	-2.6	1628.35	-2.3	1654.35	-2.2	74.2
Luxembourg	(LFr)	32.4600	+0.1395	400 - 800	32.5080	32.3650	32.4325	1.0	32.37	1.1	32.025	1.3	105.8
Netherlands	(Fl)	1.7657	+0.0057	652 - 662	1.7700	1.7615	1.7645	0.8	1.7616	0.9	1.7395	1.5	105.5
Norway	(NKr)	6.8620	+0.0241	605 - 635	6.8761	6.8443	6.8632	-0.2	6.8605	0.1	6.852	0.1	96.2
Portugal	(Es)	161.310	+0.66	260 - 360	161.500	160.150	161.835	-3.9	162.96	-4.1	166.56	-3.3	94.9
Spain	(Pta)	131.645	+0.46	620 - 670	131.980	131.240	131.83	-1.7	132.15	-1.5	133.845	-1.7	80.3
Sweden	(SKr)	7.5273	-0.0126	223 - 323	7.5869	7.5075	7.537	-1.6	7.5609	-1.8	7.6693	-1.9	80.6
Switzerland	(SFr)	1.3305	+0.001	300 - 310	1.3355	1.3265	1.328	2.3	1.3233	2.2	1.2955	2.6	108.3
UK	(£)	1.5598	-0.0074	594 - 601	1.5670	1.5575	1.5603	-0.4	1.5605	-0.2	1.5603	0.0	86.9
Ecu	-	1.2093	-0.0053	091 - 094	1.2130	1.2077	1.2096	-0.3	1.2103	-0.3	1.2175	-0.7	-
SDR†	-	1.45764	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9982	+0.0009	981 - 982	0.9982	0.9978	-	-	-	-	-	-	-
Brazil	(R$)	0.8575	+0.0075	570 - 580	0.8580	0.8580	-	-	-	-	-	-	-
Canada	(C$)	1.3723	-0.0028	720 - 725	1.3775	1.3720	1.3716	0.6	1.3717	0.2	1.3753	-0.2	82.9
Mexico	(New Peso)	3.4375	-0.003	360 - 390	3.4550	3.4360	3.4385	-0.3	3.4403	-0.3	3.4477	-0.3	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.9
Pacific/Middle East/Africa													
Australia	(A$)	1.2993	-0.0026	989 - 997	1.3053	1.2967	1.3	-0.7	1.3018	-0.8	1.3148	-1.2	90.8
Hong Kong	(HK$)	7.7380	+0.0043	375 - 385	7.7395	7.7341	7.736	0.3	7.7348	0.2	7.7425	-0.1	-
India	(Rs)	31.3850	-0.0325	800 - 900	31.4225	31.3800	31.455	-2.7	31.6	-2.7	-	-	-
Japan	(Y)	100.400	+1.06	370 - 430	100.500	99.2900	100.08	3.8	99.49	3.6	95.965	4.4	150.1
Malaysia	(M$)	2.5583	+0.0018	578 - 588	2.5588	2.5575	2.5553	1.4	2.5508	1.2	2.5788	-0.8	-
New Zealand	(NZ$)	1.5867	-0.0006	860 - 873	1.5886	1.5848	1.5877	-0.7	1.5901	-0.9	1.5991	-0.8	-
Philippines	(Peso)	24.2000	-	500 - 500	24.2500	24.0000	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7507	-	505 - 509	3.7509	3.7505	3.7542	-1.1	3.7611	-1.1	3.7757	-0.7	-
Singapore	(S$)	1.4717	+0.0072	712 - 722	1.4722	1.4657	1.4702	1.3	1.4687	1.4	1.4502	1.5	-
S Africa (Com.)	(R)	3.5678	+0.0085	670 - 685	3.5695	3.5620	3.5833	-5.2	3.6154	-5.3	3.7803	-6.0	-
S Africa (Fin.)	(R)	4.1105	-0.0495	010 - 200	4.1750	4.1010	4.1385	-8.2	4.183	-7.1	4.4205	-7.5	-
South Korea	(Won)	792.050	-1	000 - 100	792.700	791.900	795.05	-4.5	798.55	-3.3	817.05	-3.2	-
Taiwan	(T$)	26.3445	+0.049	420 - 470	26.3470	26.3300	26.3645	-0.9	26.4045	-0.9	-	-	-
Thailand	(Bt)	25.0700	+0.02	600 - 800	25.0800	25.0600	25.0995	-1.4	25.1905	-1.9	25.595	-2.1	-

†SDR rate for Dec 1. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Dec 1. Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

December 2	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	4⅝	5¼	5⅜	5½	6	7.40	4.50	-
week ago	4⅝	5⅜	5⅜	5⅞	6	7.40	4.50	-
France	5⅝	5⅞	5⅝	5⅞	6⅛	5.00	-	5.75
week ago	5⅝	5⅞	5⅜	5⅝	6⅛	5.00	-	5.75
Germany	5.05	5.23	5.23	5.28	5.58	6.00	4.50	4.85
week ago	4.85	5.23	5.15	5.25	5.55	6.00	4.50	4.85
Ireland	5¼	5¾	5⅝	6¼	7¼	-	-	6.25
week ago	5¼	5¾	5⅝	6¼	7¼	-	-	6.25
Italy	8⅛	8½	8⅞	9⅛	9⅝	-	7.50	8.20
week ago	8⅛	8½	8⅞	9¼	10⅛	-	7.50	8.20
Netherlands	4.84	5.28	5.35	5.44	5.79	-	5.25	-
week ago	4.84	5.26	5.19	5.34	5.72	-	5.25	-
Switzerland	3½	3⅞	4⅛	4¼	4⅝	6.625	3.50	-
week ago	3½	3⅞	3⅞	4⅛	4½	6.625	3.50	-
US	5⅞	5⅞	6⅛	6⅞	7⅛	-	4.75	-
week ago	5¾	5⅞	5⅞	6½	6⅞	-	4.75	-
Japan	2¼	2¼	2⅛	2⅜	2⅞	-	1.75	-
week ago	2¼	2¼	2⅛	2⅜	2⅞	-	1.75	-
$ LIBOR FT London								
Interbank Fixing	-	6⅛	6⅝	6⅝	7⅛	-	-	-
week ago	-	6⅛	5⅞	6⅛	6⅞	-	-	-
US Dollar CDs	-	5.73	6.06	6.49	7.19	-	-	-
week ago	-	5.73	5.70	6.05	6.67	-	-	-
SDR Linked Ds	-	3⅝	3⅞	3⅞	4	-	-	-
week ago	-	3⅝	3⅞	3⅞	4	-	-	-

ECU Linked Ds mid rates: 1 mth: 5⅞; 3 mths: 5⅞; 6 mths: 6; 1 year: 6½. $ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US $ CDs and SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 2	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	5⅛ - 5	5⅛ - 5	5⅛ - 5	5¾ - 5⅛	5⅞ - 5¾	6⅜ - 5⅞
Danish Krone	5¾ - 5½	5¾ - 5½	5¾ - 5½	6¼ - 6	6⅝ - 6⅜	7¼ - 7
D-Mark	5⅜ - 5¼	5⅛ - 5	5⅜ - 5¼	5⅜ - 5¼	5⅜ - 5¼	5⅞ - 5½
Dutch Guilder	5⅛ - 4⅞	5⅛ - 4⅞	5⅛ - 5	5⅜ - 5¼	5⅞ - 5¼	5¾ - 5⅝
French Franc	5⅞ - 5¼	5⅞ - 5⅝	5⅞ - 5⅝	5⅝ - 5½	5⅞ - 5⅞	6¼ - 6⅛
Portuguese Esc.	9⅝ - 8⅞	9⅛ - 8⅞	9¾ - 9½	10⅛ - 9⅞	10⅝ - 10	10⅞ - 10⅜
Spanish Peseta	7⅞ - 7⅞	7⅞ - 7⅞	7⅞ - 7⅞	7⅞ - 7¾	8⅞ - 8⅞	9⅛ - 9
Sterling	5⅞ - 5⅞	5⅞ - 5¾	5¾ - 5⅝	6⅜ - 6⅜	6⅞ - 6⅞	7½ - 7⅜
Swiss Franc	3⅝ - 3½	3⅝ - 3½	3⅞ - 3¾	4 - 3⅞	4⅜ - 4¼	4⅝ - 4⅞
Can. Dollar	5⅞ - 5¼	5⅞ - 5¼	5⅞ - 5⅞	6⅜ - 6⅛	6¾ - 6⅝	7⅝ - 7½
US Dollar	5⅝ - 5½	5⅝ - 5½	6⅛ - 6	6⅜ - 6¼	6¾ - 6⅝	7⅜ - 7⅜
Italian Lira	9 - 7½	8⅞ - 8⅜	8⅞ - 8⅞	8¾ - 8⅝	9¼ - 9⅛	10 - 9⅞
Yen	2¼ - 2⅛	2⅛ - 2¼	2⅜ - 2⅜	2⅜ - 2⅜	2½ - 2⅜	2¾ - 2⅞
Asian $Sing	3⅞ - 3⅝	4⅜ - 4¼	4⅞ - 4⅜	4⅞ - 4⅞	4⅞ - 4⅞	4⅞ - 4⅞

Short term rates are call for the US Dollar and Yen, others: two days' notice.

THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.67	93.61	-0.07	93.67	93.53	118,394	349,098
Mar	92.95	92.88	-0.07	92.98	92.77	284,350	483,461
Jun	92.35	92.33	-0.02	92.35	92.15	196,410	347,422

US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	94.28	94.29	-0.06	94.33	94.25	4,413	7,720
Mar	93.48	93.46	-0.09	93.50	93.40	7,194	15,520
Jun	92.88	92.91	-0.04	92.92	92.84	1,220	2,393

All Open interest figs. are for previous day

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1994 High	Low	Stock	Closing price p	+or-
77	Nil	30/12	3pm	2pm	Apollo Metals	2pm	
295	Nil	5/1	60pm	34pm	Laird	46pm	
37	Nil	3/1	5pm	2pm	OMI	2pm	
85	Nil	23/12	15pm	4pm	Pressac	5pm	
285	Nil	6/1	57½pm	35pm	Seton Health.	35pm	-1
25	Nil	16/1	4pm	1½pm	Usborne	3pm	

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 2		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	19.00	16.68	4.862	2.007	4988	5.441	21.14	497.0	405.6	23.19	4.099	1.976	4.228	3.082	309.2	2.546
Denmark	(DKr)	52.63	10	8.777	2.558	1.056	2625	2.863	11.12	261.6	213.4	12.21	2.157	1.040	2.225	1.622	162.7	1.340
France	(FFr)	59.95	11.39	10	2.915	1.203	2991	3.262	12.67	298.0	243.2	13.91	2.458	1.184	2.535	1.848	185.4	1.527
Germany	(DM)	20.57	3.909	3.431	1	0.413	1026	1.119	4.348	102.2	83.42	4.770	0.843	0.406	0.870	0.634	63.59	0.524
Ireland	(I£)	49.82	9.468	8.310	2.422	1	2485	2.711	10.53	247.6	202.1	11.56	2.042	0.984	2.106	1.535	154.0	1.269
Italy	(L)	2.005	0.381	0.334	0.097	0.040	100.	0.109	0.424	9.964	8.131	0.465	0.082	0.040	0.085	0.062	6.198	0.051
Netherlands	(Fl)	18.38	3.493	3.066	0.894	0.369	916.8	1	3.885	91.36	74.55	4.263	0.753	0.363	0.777	0.566	56.83	0.468
Norway	(NKr)	47.31	8.990	7.891	2.300	0.950	2360	2.574	10	235.1	191.9	10.97	1.939	0.935	2.000	1.458	146.3	1.205
Portugal	(Es)	20.12	3.823	3.356	0.978	0.404	1004	1.095	4.253	100.	81.60	4.666	0.825	0.397	0.851	0.620	62.20	0.512
Spain	(Pta)	24.66	4.685	4.113	1.199	0.495	1230	1.341	5.212	122.6	100.	5.718	1.011	0.487	1.042	0.760	76.23	0.628
Sweden	(SKr)	43.12	8.193	7.192	2.096	0.865	2151	2.346	9.114	214.3	174.9	10	1.767	0.852	1.823	1.329	133.3	1.098
Switzerland	(SFr)	24.40	4.636	4.069	1.186	0.490	1217	1.327	5.157	121.3	98.94	5.658	1	0.482	1.031	0.752	75.42	0.621
UK	(£)	50.62	9.619	8.443	2.461	1.016	2525	2.754	10.70	251.6	205.3	11.74	2.075	1	2.140	1.560	156.5	1.289
Canada	(C$)	23.65	4.495	3.945	1.150	0.475	1180	1.287	5.000	117.6	95.93	5.486	0.970	0.467	1	0.729	73.13	0.602
US	($)	32.45	6.166	5.412	1.578	0.651	1619	1.765	6.859	161.3	131.6	7.526	1.330	0.641	1.372	1	100.3	0.826
Japan	(Y)	32.35	6.146	5.395	1.573	0.649	1613	1.760	6.837	160.8	131.2	7.502	1.326	0.639	1.367	0.997	100.	0.824
Ecu		39.27	7.462	6.550	1.909	0.788	1959	2.137	8.301	195.2	159.3	9.108	1.610	0.776	1.660	1.210	121.4	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.6357	0.6335	-0.0020	0.6357	0.6324	27,976	101,734
Mar	0.6370	0.6351	-0.0019	0.6371	0.6340	3,094	13,937
Jun	0.6383	0.6369	-0.0019	0.6394	0.6377	20	1,515

SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	0.7532	0.7506	-0.0019	0.7533	0.7490	18,662	54,913
Mar	0.7557	0.7545	-0.0018	0.7571	0.7528	2,078	6,421
Jun	0.7590	0.7598	-0.0017	0.7627	0.7590	26	357

JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.0077	0.9967	-0.0125	1.0088	0.9950	28,559	78,065
Mar	1.0173	1.0050	-0.0124	1.0184	1.0043	5,864	17,023
Jun	1.0230	1.0175	-0.0122	1.0230	1.0170	237	1,249

STERLING FUTURES (IMM) £62,500 per £

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	1.5656	1.5608	-0.0058	1.5668	1.5570	10,029	49,646
Mar	1.5680	1.5610	-0.0054	1.5670	1.5580	1,059	7,962
Jun	1.5624	1.5612	-0.0048	1.5624	1.5590	2	147

PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	Jan	Feb	PUTS Dec	Jan	Feb
1.525	3.58	4.06	4.54	0.02	0.48	0.98
1.550	1.54	2.35	2.98	0.42	1.20	1.84
1.575	0.36	1.16	1.78	1.73	2.48	3.06
1.600	0.02	0.47	0.96	3.83	4.24	4.73
1.625	-	0.15	0.48	6.27	6.39	6.71
1.650	-	0.01	0.21	8.71	8.69	8.85

Previous day's vol., Calls 5,711 Puts 7,272. Prev. day's open int., Calls 396,884 Puts 346,070

Pound in New York

Dec 2	— Close —	— Prev. close —
£ spot	1.5600	1.5668
1 mth	1.5595	1.5664
3 mth	1.5596	1.5657
1 yr	1.5598	1.5658

FT GUIDE to WORLD CURRENCIES

The FT Guide to World Currencies table can be found on the Emerging Markets page in today's edition.

UK INTEREST RATES

LONDON MONEY RATES

Dec 2	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6¼ - 3¼	5⅜ - 5	5¾ - 5⅝	6⅜ - 6⅜	6⅞ - 6⅝	7½ - 7⅜
Sterling CDs	-	-	5⅞ - 5⅞	6⅜ - 6⅜	6⅞ - 6⅞	7⅜ - 7¼
Treasury Bills	-	-	5⅞ - 5⅞	6 - 5⅞	-	-
Bank Bills	-	-	5⅝ - 5½	6⅛ - 6	6⅞ - 6⅞	-
Local authority deps.	4⅞ - 4⅞	5¼ - 5⅛	5⅝ - 5½	6⅜ - 6⅜	6⅝ - 6½	7⅜ - 7⅜
Discount Market deps	5¾ - 3¾	5¼ - 5⅛	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from September 12, 1994

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	1½	4	3¾	3¾	3½

Certs of Tax dep. under £100,000 is 1½pc. Deposits withdrawn for cash ½pc.
Ave. tender rate of discount 5.8580pc. ECGD fixed rate Stg. Export Finance. Make up day Nov 30, 1994. Agreed rate for period Dec 26, 1994 to Jan 24, 1995, Schemes II & III 7.38pc. Reference rate for period Nov 1, 1994 to Nov 30, 1994, Schemes IV & V 6.107pc. Finance House Base Rate 6½pc from Dec 1, 1994

BANK OF ENGLAND TREASURY BILL TENDER

	Dec 2	Nov 25		Dec 2	Nov 25
Bills on offer	£350m	£350m	Top accepted rate	5.8580%	5.7357%
Total of applications	£2057	£1216m	Ave. rate of discount	5.8589%	5.7182%
Total allocated	£350m	£350m	Average yield	5.9429%	5.8009%
Min. accepted bid	£98.540	£98.570	Offer at next tender	£350m	£350m
Allotment at min. level	97%	71%	Min. accept. bid 182 days	-	-

BANK RETURN

BANKING DEPARTMENT	Wednesday November 30, 1994	Increase or decrease for week
Liabilities	£	£
Capital	14,553,000	
Public deposits	89,361,640	-598,152,321
Bankers deposits	1,553,502,453	-152,196,096
Reserve and other accounts	4,071,783,047	+681,534,811
	5,729,200,140	-68,813,606
Assets		
Government securities	1,205,069,769	+160,065,000
Advance and other accounts	3,973,445,570	+1,751,969,708
Premise, equipment and other secs	540,041,623	-1,985,427,140
Notes	10,442,560	+5,146,884
Coin	180,598	+31,947
	5,729,200,140	-68,813,606
ISSUE DEPARTMENT		
Liabilities		
Notes in circulation	18,579,557,440	+234,853,116
Notes in Banking Department	10,442,560	+5,146,884
	18,590,000,000	+240,000,000
Assets		
Other Government securities	11,398,255,097	-992,381,748
Other Securities	7,191,744,903	+1,232,381,748
	18,590,000,000	+240,000,000

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	* Roxburghe Bank Ltd is no longer authorised as a banking institution.	8
Allied Trust Bank	5.75	Exeter Bank Limited	6.75	Royal Bk of Scotland	5.75
AIB Bank	5.75	Financial & Gen Bank	6.5	●Smith & Williamson Secs	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	TSB	5.75
Bank of Baroda	5.75	Girobank	5.75	●United Bk of Kuwait	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	Unity Trust Bank Plc	5.75
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Western Trust	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Whiteaway Laidlaw	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Yorkshire Bank	5.75
Bank of Scotland	5.75	●Hill Samuel	5.75		
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75		
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75		
CL Bank Nederland	5.75	●Leopold Joseph & Sons	5.75		
Citibank NA	5.75	Lloyds Bank	5.75		
Clydesdale Bank	5.75	Meghraj Bank Ltd	5.75		
The Co-operative Bank	5.75	Midland Bank	5.75		
Coutts & Co	5.75	* Mount Banking	6		
Credit Lyonnais	5.75	NatWestminster	5.75		
Cyprus Popular Bank	5.75	●Rea Brothers	5.75		

● Members of London Investment Banking Association
* In administration

FT GOLD MINES INDEX

	Dec 2	% chg since 31/12/93	Dec 1	Mkt Cap $bn	% of Gold Mines	Gross div yield %	52 week High	Low
Gold Mines Index (34)	1868.82	-18.8	1889.39	45.47	100.00	2.32	2367.40	1762.02
Regional Indices								
Africa (16)	2990.96	-9.5	2999.46	15.38	33.83	4.55	3711.87	2304.45
Australasia (7)	2434.11	-8.7	2466.63	6.25	13.74	2.12	3013.89	2171.86
North America (11)	1434.51	-22.9	1445.10	23.84	52.43	0.93	2039.65	1441.24

Figures in brackets show number of companies. Basis US Dollars. Base Values: 1000.00 31/12/92. Predecessor Gold Mines Index: Dec 2 : 221.1; week's change: -17.7 points; Year ago: 231.1.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1994 High	Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	16.8	89	70	Abtrust Latin Am	84		-	-	-	-
-	F.P.	1.92	63	48	Do Warrants	48		-	-	-	-
-	F.P.	11.7	195	180	‡Adare Prntg	194		†Q28%	8.1	1.4	11.3
150	F.P.	61.0	151	145	Ashbourne	151		WN3.0	3.1	2.5	13.9
100	F.P.	4.68	94	93	Asset Man Inv	93		-	-	-	-
-	F.P.	0.35	37	35	Do. Warrants	35		-	-	-	-
280	F.P.	30.3	287	280	Churchill China	285		RN9.86	2.2	4.3	13.0
100	F.P.	20.4	130	101	Euclidian	102		-	-	-	-
141	F.P.	23.5	143	143	Eurovein	143		WN6.2	1.8	5.4	11.4
-	F.P.	480.0	495	478	Fidelity Spec Units	480	-2	-	-	-	-
100	F.P.	11.1	101	100	Finsbury Smlr C	101		-	-	-	-
$10	F.P.	37.5	625	615	First Russian Fr	625		-	-	-	-
-	F.P.	3.30	280	220	Do. Warrants	275		-	-	-	-
100	F.P.	45.6	94	91	Fleming Nat Res	91	-1	-	-	-	-
-	F.P.	1.40	17	14	Do. Warrants	14		-	-	-	-
100	F.P.	30.0	104½	98½	For & Col Emrg C	104½		-	-	-	-
100	F.P.	30.6	102	98	Hoare Govett 1000	102		-	-	-	-
80	F.P.	10.9	83	83	Hydro Intl.	83		RN-	-	-	33.8
-	F.P.	28.1	100	90	INVESCO Korea C	97		-	-	-	-
215	F.P.	69.3	232	229	JJB Sports	231		RN6.0	2.4	3.2	14.1
100	F.P.	27.0	103	100	Kiln Capital	100		F4.0	-	5.0	-
100	F.P.	41.0	94	82	Matheson Lloyds	82	-2	-	-	-	-
-	F.P.	2.00	30	20	Do. Warrants	20	-2	-	-	-	-
120	F.P.	65.9	144	120	SeaPerfect	134	-6	-	-	-	-
115	F.P.	238.8	136	117	TLG	134		WN3.5	2.0	3.3	19.2
170	F.P.	18.4	173	165	Tele-Cine Cell	165		RN5.44	2.2	4.1	11.4
182	F.P.	1,513.0	188	183½	Telewest	183½	-1	-	-	-	-
100	F.P.	17.6	102	102	Wellington Un.	102		-	-	-	-

UK GILTS PRICES

STOCK INDICES

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● FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 39p/minute cheap rate and 49p/minute at all other times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 71) 873 4378.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

LUXEMBOURG (REGULATED)(**)

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OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

LONDON SHARE SERVICE

BANKS

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
ABN Amro Fl	□	£22¼	-.6	Q61%	φ	Sep May	9'93	–
ANZ A$		193	-2.0	Q25c	φ	Jan	9.12	–
Abbey National	†N□	410	0.7	15.5	2.1	May Oct	15.8	5411
Allied Irish I£	‡†N□	249	0.8	Q53¾%	2.7	Oct May	15.8	1354
Anglo Irish I£	N□	64xd	1.8	Q17.5%	φ	Jan Jul	28.11	1365
Asahi Y	□	721½	6.7	Q14%	φ	Jan Dec	12'92	3049
Banco Bil Vic Pta	□	£17	1.2	Q27.2%	2.7	JyOcJaAp	7'93	–
Banco Sant Pta		£24⅝	——	Q39%	2.0	MyJaMrOcJa	1.8	–
Bk Ireland I£	‡†N□	280xd	1.8	Q14.7%	3.2	Jan Jul	21.11	1369
Bank Scotland	‡†N□	209½xd	0.7	6.31	3.3	Jul Dec	17.10	1742
9¼pc Pf		114¼	5.1	9¼%	–	May Nov	17.10	1482
9¾pc Pf		120½	5.7	9¾%	–	May Nov	17.10	1695
Barclays	‡†N□	599	2.0	16.65	1.9	Oct May	15.8	1794
Dai Ichi Kan Y	□	£11⅛	7.1	Q10%	1.2	Jan Dec	9'93	–
Deutsche DM	□	$301¼	-2	Q30%	–	May	5'93	–
Espirito Santo	□	98¼	-5.4	Q60c	5.2	Jan	6'93	5167
First Nat Fin	N□	62½	-2.3	1.5	–	Mar Aug	18.7	2571
6.3pc Cv Pf		72	——	6.3%	–	Jul Jan	6.6	2570
7pc Cv Pf		119	——	7.0	–	Jul Jan	6.6	1498
Fuji Bank Y	□	1309	4.8	Q17%	φ	Dec Jun	7'93	–
HSBC HK	†N□	682	-3.1	24.5	2.4	Nov Jun	5.9	2799
Irish Permanent	‡N□	223	0.9	9.0	2.9	Apr Oct	–	4709
HSBC (75p Shs)	†N□	689	-3.1	24.5	2.4	Nov Jun	5.9	2776
Lloyds	†N□	553	-2.0	22.0	2.1	Oct May	8.8	3171
Mitsubishi Y	□	£14⅝	1.3	Q17%	φ	Jan Dec	12'92	–
Mits Tst & Bk Y	□	887¼	6.5	Q16%	12.4	Jan Dec	12'92	–
Mitsui Tst & Bk Y	□	829	0.7	Q17%	5.5	Jan Dec	12'92	–
Nat Aust A$		509	-2.9	Q74c	φ	Jan Jul	21.6	–
NatWest	†N□	514	2.8	19.4	2.4	Oct May	8.8	3463
Ottomane FFr		£21½	2.4	Q125%	φ	May	25.5	–
Ryl Bk Scotland	‡φN□	409	-3.3	13.75	2.9	Feb Jul	16.5	3874
Sakura Y	□	£8⅝	3.6	Q17%	3.0	Dec Jun	12'92	–
Sanwa Y	□	£12⅞	2.9	Q18%	2.0	Jan Dec	12'92	–
Standard Chartd	†N□	279	——	8.37	4.2	Jan Oct	22.8	4694
7 3/8pc Pf		91½	5.8	7.37	–	Apr Oct	22.8	1719
Sumitomo Y	□	£11⅜	5.8	Q17%	6.7	Jan Dec	12'92	–
Sumitomo Tst Y	□	817¼	0.5	Q17%	φ	Jan Dec	12'92	–
TSB	†N□	229	1.1	8.07	2.5	Apr Oct	15.8	4320
Tokai Y	□	579¾	6.6	Q18%	2.8	Jan Dec	12'92	–
Toyo Tst & Bk Y	□	641¼	1.5	Q8½%	2.3	Jan Dec	6'93	–
Westpac A$		208¼	-.6	Q12c	φ	Jul Jul	7.6	–
Yasuda Tst Bk Y	†□	616½	3.0	Q5½%	2.3	Jun Dec	12'92	–

BREWERIES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Ascot Hldgs	□	1½	——	–	–	–	–	2515
Bass	†N□	616	-1.9	20.95	1.8	Feb Jul	6.6	1772
Boddington	†N□	257	0.8	8.32	2.1	Apr Oct	12.9	1982
Burtonwood	†N	176xd	-1.1	5.1	2.8	Feb Aug	14.11	2022
Eldridge,Pope A	‡†N	167	-.6	3.65	1.8	Feb Jul	4.7	2435
Fosters A$		55	-1.8	Q6c	φ	May Oct	9'93	1072
Fuller STA		369	-2.4	7.77	3.1	Aug Jan	18.7	2543
Gibbs Mew		433	-2	8.75	3.1	Oct Apr	8.8	2923
Greenalls	‡†N□	412	——	12.61	1.9	Jul Feb	16.5	2768
Greene King	N□	535	-.9	12.9	2.7	Aug Feb	18.7	2789
Grosvenor Inns		140	——	4.75	1.3	Mar Oct	15.8	–
Holt (J)	†N	3495	3.3	49.0	3.7	Jan Oct	3.10	2842
Kirin Y	□	672	-.6	Q20%	4.2	Mar Sep	–	1119

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD MANUFACTURERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

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LONDON SHARE SERVICE

INVESTMENT TRUSTS - Cont.

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OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MERCHANT BANKS

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL EXPLORATION & PRODUCTION - Cont.

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER SERVICES & BUSINESSES

[illegible]

PHARMACEUTICALS

[illegible]

PRINTING, PAPER & PACKAGING

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SPIRITS, WINES & CIDERS

[illegible]

SUPPORT SERVICES

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

TRANSPORT - Cont.

[illegible]

WATER

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		234	6.2	Q375c	1.9	Oct Apr	3'93	–
Barlow		25⅛	–2.5	Q56c	ϕ	Jan Jul	20.6	–
Gold Flds Prop R		116xa	—	Q82c	ϕ	Feb Sep	31.1	–
NK Props.		95	–3.1	Q67.1c	–	Feb Sep	10'93	–
SASOL		479	–11.3	Q78c	–	Oct	9'93	–
SA Brews	†	£15½	–2.3	Q163c	2.2	Jun Dec	21.11	–
Tiger Oats		728	0.4	Q85c	ϕ	Jan Jul	6.6	–
Tongaat-Hulett	†b	725	—	Q90c	2.4	Feb Aug	4.1	–

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by Extel Financial, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsetable ACT. Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- Rule 4.2(a) UK & Irish incorporated non-listed companies.
- Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. f Flat yield. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Not subject to ACT. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1994-95. G Assumed dividend after pending scrip and/ or rights issue. H Dividend based on prospectus or other official estimates for 1993. K Dividend based on prospectus or other official estimates for 1994. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1993-94. N Figures based on BMR "Headline Earnings". P Figures based on prospectus or other official estimates for 1994. Q Gross. R Forecast annualised dividend, cover based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1235 a year for each security shown, subject to the Editor's discretion

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Irish Permanent (Banks), Charters Towers (Ext. Inds.), BZW Commods. Tst. Ord and Warrants (Inv. Tsts., Calluna (Support Services) and Filtronic Comtec (Telecoms.). Deletions: *Redaurum (Ext. Inds.) and BZW Endowment Fd. (Other Financial).*

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Call 071-873 4378 (+44 71 873 4378, International) for more information on FT Cityline.

4 pm close December 2

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

AMEX CO

Have your FT

Financial Times. Eu

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NYSE COMPOSITE PRICES

4 pm close December 2

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close December 2

- K -

- L -

- M -

- E -

- F -

- B -

- G -

- H -

- N -

- O -

- P - Q -

- I -

- J -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

AMEX COMPOSITE PRICES

4 pm close December 2

FT GUIDE TO THE WEEK

5 MONDAY

Budapest security summit

Presidents Bill Clinton of the US and Boris Yeltsin of Russia, and Boutros Boutros Ghali (left), secretary-general of the United Nations, are among more than 50 world leaders attending the Conference on Security and Co-operation in Europe summit in Budapest (to Dec 6).

The session, the culmination of a two-month review conference, is due to focus on the organisation's future. Russia is keen to strengthen the CSCE, which includes all European and Commonwealth of Independent states as well as the US and Canada. However, divisions among Nato members over Bosnia are likely to overshadow proceedings.

European Union finance ministers meet in Brussels ahead of the European Council summit in Essen on Friday and Saturday. Germany, which holds the rotating EU presidency, will push hard for agreement on Ecu85m ($108m) balance of payments assistance to Ukraine.

Jacques Delors, outgoing president of the European Commission, will appeal for support for funding trans-European networks to improve transport and energy infrastructure. Ministers are also likely to review currency stability since last year's crisis in the exchange rate mechanism.

Olympian task:

Greece's socialist government is due to propose controversial legislation on overhauling Olympic Airways, the loss-making state carrier. A survival plan agreed with the European Union includes a Dr491bn ($2bn) debt write-off, management restructuring and early retirement for at least 1,500 employees. Pilots' privileges, including a day off on their birthdays, are to be curtailed.

Global phones: The International Marine Satellite Organisation, Inmarsat, opens a five-day meeting in London to discuss whether it should set up a global mobile phone network.

Safety at sea: The International Maritime Organisation's Maritime Safety Committee meets in London to review shipping safety standards in the light of recent accidents (to Dec 9).

FT Survey: Thailand.

Holidays: Thailand.

6 TUESDAY

Ireland awaits a premier

Bertie Ahern, leader of the Fianna Fail party, will be hoping to be voted Ireland's prime minister by parliament when it reconvenes today. Installation of a prime minister should give fresh impetus to the Northern Ireland peace process.

East European economies face a brighter future, according to a report out today from the United Nations Economic Commission for Europe. However, output is still falling in Russia and other members of the Commonwealth of Independent States.

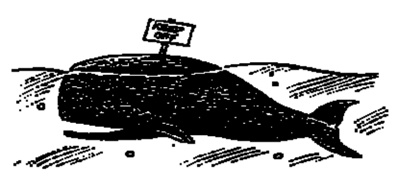
John Major's UK government faces another testing vote in parliament, this time on a procedural motion which would allow the opposition Labour party to challenge the imposition of VAT on domestic heating fuel. The government, technically in a minority after the suspension of some members, could lose, but will probably scrape home.

UK economic policy: Last week's UK Budget comes under the scrutiny of the cross-party House of Commons treasury and civil service committee. MPs will question Treasury officials on expenditure and taxation, fiscal and monetary policy in preparation for meetings next week with Jonathan Aitken, the chief secretary, and Kenneth Clarke, the chancellor.

Saleroom: Christie's in New York is to auction a Maltese Falcon statuette used as a prop in the 1941 film of the same name, based on Dashiell Hammett's novel and starring Humphrey Bogart and Mary Astor.

The statuette, one of two made for the film, is expected to raise between $30,000 and $50,000. It is being sold by the estate of actor William Conrad, star of the 1970s television detective series Cannon, who received it as a gift from Warner Bros studio chief Jack Warner in the 1960s. The other falcon is owned by a Beverly Hills dentist.

Blue heaven: The International Whaling Commission's whale sanctuary in the Antarctic is due to come into effect. It covers the feeding grounds of 90 per cent of the world's whale species, including blue, sperm and sei, and effectively confines whale hunting to part of the Atlantic.



Rugby: The Varsity Match between Oxford and Cambridge is played at Twickenham in London.

FT Surveys: Swiss Banking and Japanese Industry.

Holidays: Finland (Independence Day), Spain (Constitution Day).

7 WEDNESDAY

Namibia goes to the polls

Namibians begin two days of voting in their first elections since independence in 1990. Incumbent president Sam Nujoma's South West African People's Organisation is expected to win comfortably, despite allegations of corruption from the main opposition Democratic Turnhalle Alliance. Were Swapo to garner a two-thirds majority, it could make alterations to the constitution.

UK interest rates:

Kenneth Clarke, chancellor, and Eddie George (left), governor of the Bank of England, meet to discuss interest rates in the light of last week's Budget proposals. The arguments for and against a rise in base rates from 5.75 per cent are finely balanced.

The Bank fears strong economic growth may trigger inflationary pressures. Analysts believe Mr Clarke will urge delay at least until January to prevent a pre-Christmas upset to the retail trade and to allow the public to digest his Budget measures.

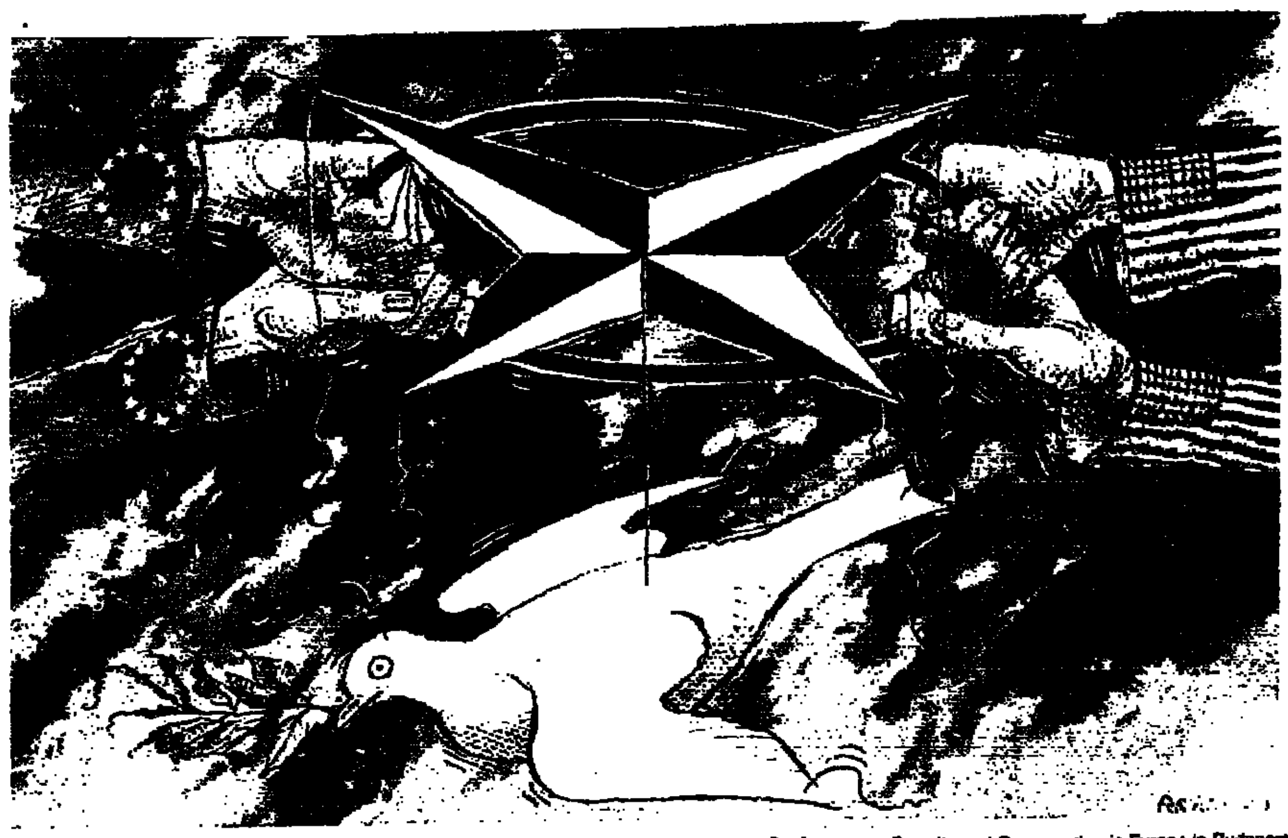
Kyrgyzstan and the World Bank co-sponsor a two-day investors' conference in Paris. The republic, which has been following an International Monetary Fund programme, has stabilised its currency, the som, and is set to bring inflation below 1 per cent a month. Western economists are predicting its economy will expand by 1-2 per cent in the second half of next year.

VSEL bid: Michael Heseltine, UK secretary of state for trade and industry, has until today to rule on whether bids for the submarine maker VSEL by British Aerospace and GEC should be referred to the Monopolies and Mergers Commission. It is thought unlikely that either bid will be referred, leaving the battle to be fought out in the stock-market.

Lloyd's of London: The council of the insurance market is expected to discuss the possibility of forging an out-of-court settlement between loss-making members and professional agencies being sued for negligence. Peter Middleton, chief executive, has been testing support for fresh negotiations after Names rejected in February a deal that would have been worth about £900m. All sides agree a deal is in the best interest of the insurance market. The problem is deciding how much each must concede.

East Timor: The 19th anniversary of the invasion and occupation of the former Portuguese colony by Indonesia will be marked by protests in Australia, Britain, Canada, Portugal and the US.

FT Survey: Zimbabwe.



US-European differences within Nato on how to achieve peace in Bosnia may overshadow the Conference on Security and Co-operation in Europe in Budapest

8 THURSDAY

Gatt members ponder WTO

The 125 participants in the eight-year-old Uruguay Round of the General Agreement on Tariffs and Trade meet in Geneva to set a January 1 start-date for Gatt's successor, the World Trade Organisation.

Ankara's state security court is due to give its verdict in the treason trial of eight Kurdish MPs, accused of infringing Turkey's anti-terrorism laws by maintaining ties with guerrillas of the Kurdistan Workers party (PKK) and advocating a separate Kurdish state.

Nigeria's constitutional conference in Abuja begins a month's break, six weeks after it was due to offer draft proposals, before resuming in January.

UK telecoms: Oftel, the regulatory body, publishes a consultation document on interconnection, concerning the prices BT's competitors have to pay to use parts of its network.

Saleroom: The Marquess of Cholmondeley is disposing of items from Houghton Hall, his house in Norfolk, at Christie's in London. Among the highlights are chairs designed by William Kent and a painting La Lecture de Molière by Jean-François de Troy, which could top £5m.

FT Surveys: Business in the Community and Vietnam.

Holidays: Argentina, Austria, Brazil (some states), Chile, Italy, Peru, Portugal, Spain (Immaculate Conception).

9 FRIDAY

Summit of the Americas

President Bill Clinton hosts the Summit of the Americas (to Dec 10). All the leaders of the region, with the exception of Cuba's Fidel Castro, foregather in Miami. The main item on the agenda is trade. Given Mr Clinton's weakness after the disastrous mid-term elections, many are sceptical that the fine words expected from the US on the goal of hemispheric economic integration can be translated into practice.

EU summit: Germany's Chancellor Helmut Kohl hosts the two-day European Council summit in Essen. The meeting is being billed as a cornerstone of the German-led strategy to build a "wider" European Union to include the former communist countries of central and eastern Europe. Other topics include measures to boost employment, EU strategy toward North Africa, the crisis in Bosnia, and efforts to beef up Europol into a European FBI.

Sinn Féinn, the political wing of the IRA, and the British government are due to begin talks in Belfast, opening a new phase of the Northern Ireland peace process. They have been deferred from Wednesday at the IRA's request. Decommissioning of paramilitary arsenals will top the agenda.

Bank of Japan is to release its quarterly Tankan business outlook, the most authoritative guide to the short term economic outlook. It will appear against the background of strengthening signs of a recovery.

10-11 WEEKEND

Peace prize ceremony

On Saturday, Israel's prime minister Yitzhak Rabin and foreign minister Shimon Peres, together with PLO chairman Yassir Arafat, collect the 1994 Nobel Peace Prize in Oslo. The three were awarded this year's controversial prize in October for their efforts to create peace in the Middle East, but the extremist Islamic movement has since been seeking to undermine progress of the accord. This year's Nobel Peace Prize is the first to be shared by more than two recipients.

Japan's main opposition forces intend to merge into one party (Shinshinto) on Saturday at a meeting in Yokohama.

Nasreen trial: On Saturday, the trial in absentia of the Bangladeshi feminist writer Taslima Nasreen is due to begin. She is accused of insulting Islam in her works. She fled to Sweden in August.

Saleroom: Manhattan Rolls-Royce dealer Michael Schudroff, who is closing shop and moving to smaller premises in Greenwich, Connecticut, auctions some 50 vehicles, part of his collection of vintage Rolls-Royces, at Sotheby's New York on Saturday.

Germany's liberal Free Democrats, the junior partner in the ruling coalition, begin a special congress on Sunday in Gera, Thuringia, to redefine the party's aims after its poor showing in the recent federal elections (to Dec 12).

Compiled by Patrick Stiles. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: Provisional UK M0 money supply data for November and consumer credit figures for October should shed some light on UK consumer demand. The annual rate of M0 growth is expected to slow, while demand for consumer credit should remain buoyant.

Thursday: Details of west German third-quarter growth should show continued steady expansion of gross domestic product at about or just under 2 per cent a year. Although some economists earlier forecast a consumer-induced slowdown, industrial and export demand seem to have more than compensated for thin pay packets. The first pre-Christmas sales figures, however, suggest a less-than-festive season for retailers.

Analysts differ over whether this year's penultimate Bundesbank council meeting will lead to a reduction in the discount rate. Recent teasing hints from bank directors, suggesting a cut is more likely than an increase, have maintained interest in the topic.

In the UK, Eddie George, the Bank of England governor, appears before the Commons treasury and civil service committee to be quizzed on monetary policy and interest rates.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Monday	US	Oct new home sales	675,000	703,000
Dec 5	US	Nov domestic auto sales	7.3m	7.1m
	US	Nov domestic light truck sales	5.9m	6m
	Japan	Nov trade balance, 1st 20 days	-	$4.6bn
	UK	Oct credit business	£460m	£479m
	UK	Nov M0*	-0.1%	0.5%
	UK	Nov M0**	6.9%	7.3%
Tue	US	Oct home completions	-	1.4m
Dec 6	UK	Oct advance energy stats	-	-
Wed	US	3rd qtr productivity revenue	-	2.7%
Dec 7	US	Oct consumer credit	$10bn	$10.6bn
	UK	Oct manufacturing output*	0.3%	0.6%
	UK	Oct manufacturing output**	5.3%	5.4%
	UK	Oct industrial production*	0.3%	1.1%
Thur	US	Oct wholesale trade	-	-0.3%
Dec 8	US	M1, w/e Nov 28	$1bn	$0.4bn
	US	M2, w/e Nov 28	$2.5bn	$17.3bn
	US	M3, w/e Nov 28	-$1bn	$10bn
	Germany	3rd qtr gross dom prod, Western***	1%	1%
	Germany	3rd qtr gross dom prod, Western**	2.2%	2.3%
	Germany	Nov unemployment rate, West†	-13,000	-23,000
	Germany	Oct employment rate, West†	3,000	-8,000
	Germany	Nov vacancies, West	-	10,000
	Germany	Nov short-time, West (not†)	-	5,000
Thur	UK	Sept visible trade (global)	-£600m	-£691m
Dec 8	Aus'lia	Oct retail trade†	1%	-1.6%
(cont)	Aus'lia	Nov unemployment rate†	9.2%	9.1%
	Canada	Nov housing starts – units	150,000	-
Fri	US	Nov bank credit	-	2.9%
Dec 9	US	Nov C&I loans	-	11.1%
	Japan	Nov Bank of Japan Tankan	-	-
	Japan	Ditto, diffusion indx, manufact	-29%	-39%
	Japan	Ditto, diffusion indx, non-manufact	-28%	-33%
	Japan	'94 Tankan capital spending	-3.5%	-3.8%
	Japan	Nov Bank of Japan bank data	-	n/a
	N'lands	Nov consumer prices indx*	0.0%	0.1%
	N'lands	Nov consumer prices indx**	2.8%	2.8%
	Canada	Oct motor vehicle sales*	4%	-
During the week...				
	Germany	Oct manufacturing orders*	-1%	4.8%
	Germany	Nov final cost of living**	-	2.8%
	Germany	Oct final M3	-	7.8%
	Germany	Oct retail sales, pan-Germany	-0.8%	-1%
	Germany	Oct retail sales, West**	0.5%	-1%
	France	Oct M3*†	0.3%	0.6%
	Italy	Oct hourly wages	2.8%	2.1%
	N'lands	Oct producer prices indx**	-	1.4%

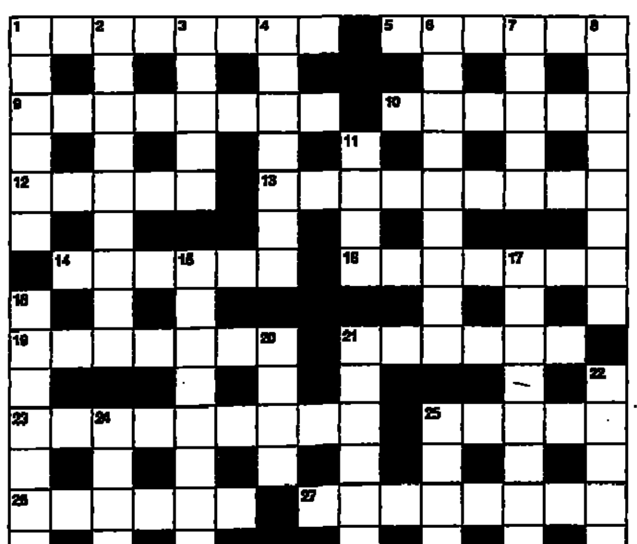
*month on month, **year on year, ***qtr on qtr, †seas adj. *Statistics, courtesy MMS International.*

ACROSS

1 He squandered good money on the leadership (8)
5 Spat on one's foot (6)
9 Might he finish in French station with Frenchman in custody? (8)
10 Struggled to capture a river in all its diversity (6)
12 Mocking words from tax collectors on your initial letter (5)
13 Sort of planning to manufacture non-European cigarettes (9)
14 Feels the loss of the girls (6)
16 The king hit back: It's all hot air! (7)
19 Words of cheer (7)
21 Gives a broader view of village women's sendoff (6)
23 Liquid holding (9)
25 Sick fellow in the section (5)
26 Cover for a damaged Koran (6)
27 The translation is stated to have caused repugnance (8)
28 On returning encounters eastern respect (6)
29 Being open-handed, one urges reform (8)

DOWN

1 Food the old woman put in front of the soldiers (6)
2 Drooling over hidden energy of the boatman (9)
3 Married, yet a knock-over for anything showing some flesh (5)
4 Seen coming back around the motorway – is it fate? (7)
6 Racial system of equality with the help of outsiders (9)
7 Object to skinny German (5)
8 It's a mockery to remove one cryptic clue (8)
11 Document gives weight to internal state (4)
15 It got involved in Caesar's flight (9)
17 Declaration is clearly visible on the circular (9)
18 Lack a little time (8)
20 An opening possibly lost (4)
21 Not trained to get up in the same way as Marshall, it's said (7)
22 Emphasise the strain (6)
24 Leading player in kind of game (5)
25 Loose woman who lost her head (5)



MONDAY PRIZE CROSSWORD
No.8,628 Set by ADAMANT

A prize of a Pelikan New Classic 390 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday December 15, marked Monday Crossword 8,628 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday December 19.

Name..........

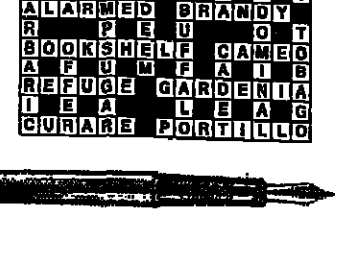
Address..........

....

Winners 8,616

Pamela James, Keston, Kent
Ann Forbes, Newsome, Huddersfield
Ursula Green, Marple, Cheshire
A.W. Hill, Croydon
P. Legrain, London W11
L. Vaughan, Ashton-under-Lyne, Lancs

Solution 8,616



هكذا من الاصل